

NEW ISSUE
Book-Entry-Only

RATING: Standard & Poor's: AAA
(See "RATING" herein)

In the opinion of Barnes & Thornburg, Indianapolis, Indiana ("Bond Counsel"), under existing laws, interest on the Series 2003 C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2003 C Bonds. In the opinion of Bond Counsel under existing laws, interest on the Series 2003 C Bonds is exempt from income taxation in the State of Indiana for all purposes except the Indiana financial institutions tax. See "TAX MATTERS" and Appendix C herein.

\$10,425,000
INDIANA BOND BANK
Special Program Bonds, Series 2003 C
(Whiting Sanitary District)

Dated: Date of Delivery

Due: As shown on the inside Cover

The Indiana Bond Bank Special Program Bonds, Series 2003 C (Whiting Sanitary District) (the "Series 2003 C Bonds") will initially be dated as of the date of their delivery, and will bear interest from that date to their respective maturities in the amounts and at the rates set forth on the inside front cover. The Series 2003 C Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Series 2003 C Bonds will be made in book-entry-only form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of beneficial interests in the Series 2003 C Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Series 2003 C Bonds. Interest on the Series 2003 C Bonds is payable on January 25 and July 25 of each year, commencing January 25, 2004. The principal of, redemption premium, if any, and interest on the Series 2003 C Bonds will be paid directly to DTC by National City Bank of Indiana, as trustee (the "Trustee") under the Indenture, as defined and described herein, so long as DTC or its nominee is the registered owner of the Series 2003 C Bonds. The final disbursement of such payments to the Beneficial Owners of the Series 2003 C Bonds will be the responsibility of the DTC Participants and the Indirect Participants, all as defined and more fully described herein under "THE SERIES 2003 C BONDS-Book-Entry-Only System."

The Series 2003 C Bonds are issued by the Indiana Bond Bank (the "Bond Bank") for the principal purposes of (1) providing funds for the purchase of securities of a Qualified Entity as defined and described herein; (2) paying the bond insurance premium to MBIA Insurance Corporation; and (3) paying costs related to the issuance of the Series 2003 C Bonds, all as more fully described in this Official Statement.

The Series 2003 C Bonds are subject to optional redemption prior to maturity as described herein under "THE SERIES 2003 C BONDS-Redemption."

The Series 2003 C Bonds are limited obligations of the Bond Bank payable solely out of the revenues and funds of the Bond Bank pledged therefor under the Indenture. The Series 2003 C Bonds do not constitute a debt, liability or loan of the credit of the State of Indiana (the "State") or any political subdivision thereof, including any Qualified Entity under the constitution and laws of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision thereof, including any Qualified Entity. The source of payment of, and security for, the Series 2003 C Bonds are more fully described herein. The Bond Bank has no taxing power.

(A detailed maturity schedule is set forth on the inside cover)

The scheduled payment of principal of and interest on the Series 2003 C Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2003 C Bonds by MBIA Insurance Corporation.



The Series 2003 C Bonds are offered when, as and if issued by the Bond Bank and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of legality by Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by counsel for the Issuer, Bingham McHale LLP, Indianapolis, Indiana, and for the Underwriter by its counsel, Krieg DeVault LLP, Indianapolis, Indiana. It is expected that the Series 2003 C Bonds will be available for delivery to DTC on or about June 19, 2003.



This cover page contains information for reference only and is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

June 6, 2003

Maturity Schedule

\$10,425,000
Indiana Bond Bank
Special Program Bonds, Series 2003 C
(Whiting Sanitary District)

| <u>Maturity Date</u> | <u>Principal</u> | <u>Interest Rate</u> | <u>Price</u> |
|----------------------|------------------|----------------------|--------------|
| 1/25/04 | 895,000.00 | 2.00% | 100.506% |
| 7/25/04 | 390,000.00 | 2.00% | 100.871% |
| 1/25/05 | 395,000.00 | 2.00% | 101.072% |
| 7/25/05 | 400,000.00 | 2.00% | 101.403% |
| 1/25/06 | 400,000.00 | 2.00% | 100.937% |
| 7/25/06 | 405,000.00 | 2.00% | 101.113% |
| 1/25/07 | 410,000.00 | 3.00% | 103.455% |
| 7/25/07 | 415,000.00 | 2.25% | 100.978% |
| 1/25/08 | 420,000.00 | 3.00% | 103.081% |
| 7/25/08 | 430,000.00 | 3.00% | 103.397% |
| 1/25/09 | 435,000.00 | 4.00% | 107.466% |
| 7/25/09 | 445,000.00 | 3.00% | 102.468% |
| 1/25/10 | 450,000.00 | 3.50% | 103.883% |
| 7/25/10 | 455,000.00 | 3.50% | 104.149% |
| 1/25/11 | 465,000.00 | 5.00% | 113.063% |
| 7/25/11 | 235,000.00 | 3.50% | 103.133% |
| 1/25/12 | 240,000.00 | 3.50% | 102.237% |
| 7/25/12 | 245,000.00 | 3.50% | 102.344% |
| 1/25/13 | 250,000.00 | 4.00% | 105.464% |
| 7/25/13 | 255,000.00 | 4.00% | 105.704% |
| 1/25/14 | 260,000.00 | 3.50% | 100.000% |
| 7/25/14 | 265,000.00 | 3.50% | 100.000% |
| 1/25/15 | 270,000.00 | 3.60% | 99.715% |
| 7/25/15 | 275,000.00 | 3.60% | 99.705% |
| 1/25/16 | 1,320,000.00 | 5.00% | 110.869% |

INDIANA BOND BANK

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Clark H. Byrum, Vice Chairman
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National City Bank of Indiana
Indianapolis, Indiana

Indiana Bond Bank Counsel

Bingham McHale LLP
Indianapolis, Indiana

Bond Counsel

Barnes & Thornburg
Indianapolis, Indiana

Financial Advisor

Crowe, Chizek and Company LLP
Indianapolis, Indiana

No dealer, broker, salesperson or other person has been authorized by the Bond Bank or by the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Series 2003 C Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2003 C Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there have been no changes in the information presented herein since the date hereof.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCE OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2003 C BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2003 C BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BOND BANK AND THE TERMS OF THE OFFERING, INCLUDING THE MERIT AND RISK INVOLVED. THE SERIES 2003 C BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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OFFICIAL STATEMENT

\$10,425,000

Indiana Bond Bank

Special Program Bonds, Series 2003 C (Whiting Sanitary District)

INTRODUCTION

The purpose of this Official Statement, including the cover page and appendices, is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of its \$10,425,000 aggregate principal amount of Special Program Bonds, Series 2003 C (the "Series 2003 C Bonds") to be issued by the Bond Bank. The Series 2003 C Bonds are authorized by Resolutions adopted by the Board of Directors of the Bond Bank on February 26, 2003 and April 8, 2003 (together, the "Resolutions") and are issued pursuant to the provisions of a Trust Indenture, dated as of May 1, 2003, between the Bond Bank and the Trustee (as hereinafter defined) (the "Indenture"), and the laws of the State of Indiana, including particularly Indiana Code 5-1.5 (as amended from time to time, the "Act"). National City Bank of Indiana is the trustee, registrar and paying agent (the "Trustee") under the Indenture.

The proceeds from the sale of the Series 2003 C Bonds will be used to provide funds to (a) purchase the Series 2003 C Qualified Obligations described in this Official Statement (the "Series 2003 C Qualified Obligations"), (b) fund the Reserve Requirement established by the Indenture and (c) pay all of the Costs of Issuance (as defined in Appendix E) of the Series 2003 C Bonds, including the underwriter's discount and the bond insurance premium to MBIA Insurance Corporation (the "Series 2003 C Bond Insurer"). See "PLAN OF FINANCING" and "APPLICATION OF PROCEEDS OF THE SERIES 2003 C BONDS."

The Bond Bank is a separate body corporate and politic, constituting an instrumentality of the State of Indiana (the "State") for the public purposes set out in the Act. The Bond Bank is not an agency of the State, is separate from the State in its corporate and sovereign capacity and has no taxing power. Pursuant to the Act, the purpose of the Bond Bank is to assist political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1(b), leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, as defined in the Act and any organizations with members that are an individual qualified entity through programs of purchasing the Bonds or evidences of indebtedness of such qualified entity or leases or certificates or other evidences of participation in lessor's interests in or rights under leases with such qualified entity, all of which are payable from taxes or from revenues, rates, charges or assessments or from the proceeds of funding or refunding bonds, bonds or evidences of indebtedness, leases, or certificates or other evidences of participation in leases with a qualified entity and which secure the bonds issued by the Bond Bank. A qualified entity can include, but is not limited to, such entities as all State universities, cities, towns, counties, school corporations, library corporations and not-for-profit corporations and associations which lease facilities to such entities.

The Bonds are payable solely out of and secured by a pledge of certain revenues as defined below and funds of the Bond Bank pledged for payment under the Indenture. The Bonds do not constitute a debt, liability or loan of the credit of the State or any political subdivision of the State under the constitution of the State or a pledge of the faith, credit and taxing power of the State or any political subdivision. The sources of payment and security for the Bonds are further described in this Official Statement under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The summaries of and references to all documents, statutes and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to the full text of each such document, statute or instrument. Summaries of certain provisions of the Indenture and definitions of some of the

capitalized words and terms used in this Official Statement are set forth in Appendix D and Appendix E. Terms not defined herein shall have the respective meanings ascribed thereto in the Indenture.

Information contained in this Official Statement with respect to the Bond Bank and the Series 2003 C Qualified Entity and copies of the Indenture and the Authorizing Instrument may be obtained from the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204. The Bond Bank's telephone number is (317) 233-0888.

THE SERIES 2003 C BONDS

General Description

The Series 2003 C Bonds are issuable as fully registered bonds in denominations of \$5,000 or any integral multiple thereof. The Series 2003 C Bonds will be dated as of the date of their delivery.

Interest on the Series 2003 C Bonds will be payable semi-annually on January 25 and July 25 of each year, commencing January 25, 2004 (each an "Interest Payment Date"). The Series 2003 C Bonds will bear interest (calculated on the basis of a 30-day month and a 360-day year) at the rates and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. If a Series 2003 C Bond is authenticated on or prior to January 10, 2004, it shall bear interest from the date of its delivery. Each Series 2003 C Bond authenticated after January 10, 2004, shall bear interest from the most recent Interest Payment Date to which interest has been paid or the date of authentication of such Series 2003 C Bond unless such Series 2003 C Bond is authenticated after a Record Date and on or before the next succeeding Interest Payment Date, in which event the Series 2003 C Bond will bear interest from such next succeeding Interest Payment Date.

When issued, all Series 2003 C Bonds will be registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests from DTC in the Series 2003 C Bonds will be made in book-entry-only form (without certificates) in the denomination of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Series 2003 C Bonds payments of the principal of and interest on the Series 2003 C Bonds will be made directly by the Trustee by wire transfer of funds to Cede & Co., as nominee for DTC. Disbursement of such payments to the participants of DTC (the "DTC Participants") will be the sole responsibility of DTC, and the ultimate disbursement of such payments to the Beneficial Owners, as defined herein, of the Series 2003 C Bonds will be the responsibility of the DTC Participants and the Indirect Participants, as defined herein. See "THE SERIES 2003 C BONDS -- Book-Entry-Only System."

If DTC or its nominee is not the registered owner of the Series 2003 C Bonds, principal of and premium, if any, on all of the Series 2003 C Bonds will be payable at maturity upon the surrender thereof at the principal corporate trust office of the Trustee. Interest on the Series 2003 C Bonds, when due and payable, will be paid by check dated the due date mailed by the Trustee one business day prior to the due date (or, in the case of an owner of Series 2003 C Bonds in an aggregate principal amount of at least \$1,000,000, by wire transfer on such due date, upon written direction of such registered owner to the Trustee not less than five business days before the Record Date immediately prior to such Interest Payment Date, which direction shall remain in effect until revoked in writing by such owner) to the persons in whose names such Series 2003 C Bonds are registered, at their addresses as they appear on the bond registration books maintained by the Trustee on the Record Date, irrespective of any transfer or exchange of such Series 2003 C Bonds subsequent to such Record Date and prior to such Interest Payment Date unless the Bond Bank shall default in payment of interest due on such Interest Payment Date.

Except as provided under "THE SERIES 2003 C BONDS -- Book-Entry-Only System," in all cases in which the privilege of exchanging or transferring Series 2003 C Bonds is exercised, the Bond Bank will execute and the Trustee will deliver Series 2003 C Bonds in accordance with the provisions of the Indenture. The Series 2003 C Bonds will be exchanged or transferred at the corporate trust operations office of the Trustee only for Series 2003 C Bonds of the same tenor and maturity. In connection with any transfer or exchange of Series 2003 C Bonds, the Bond Bank or the Trustee may impose a charge for any applicable tax, fee or other governmental charge incurred in connection with such transfer or exchange, which sums are payable by the person requesting such transfer or exchange.

The person in whose name a Series 2003 C Bond is registered will be deemed and regarded as its absolute owner for all purposes and payment of principal and interest thereon will be made only to or upon the order of the registered owner or its legal representative, but such registration may be changed as provided above. All such payments shall be valid to satisfy and discharge the liability upon such Series 2003 C Bond to the extent of the sum or sums so paid.

Redemption

Optional Redemption. The Series 2003 C Bonds maturing on or after January 25, 2014 are subject to redemption prior to maturity on or after July 25, 2013 in whole or in part on any date as selected by the Bond Bank, at a redemption price equal to the principal amount of each Series 2003 C Bond to be redeemed, plus accrued interest to the redemption date, and without any redemption premium.

Cash Flow Certificate. Prior to any optional redemption of any Series 2003 C Bonds, the Bond Bank will be required under the Indenture to deliver or to cause to be delivered to the Trustee a Cash Flow Certificate (as defined in Appendix E) to the effect that, giving effect to such redemption, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Notice of Redemption. In the case of redemption of the Series 2003 C Bonds, notice of the call for any such redemption identifying the Series 2003 C Bonds, or portions of fully registered Series 2003 C Bonds, to be redeemed will be given by mailing a copy of the redemption notice by first class, registered or certified mail not less than 30 days nor more than 45 days prior to the date fixed for redemption to the Registered Owner of the Series 2003 C Bonds to be redeemed at the address shown on the registration books of the Trustee. Failure to give such notice by mailing, or any defect thereof with respect to any Series 2003 C Bonds, shall not affect the validity of any proceedings for the redemption of any other Series 2003 C Bonds. All Series 2003 C Bonds so called for redemption shall cease to bear interest on the specified redemption date, shall no longer be protected by the Indenture and shall not be deemed to be outstanding under the provisions of the Indenture, provided funds for their redemption are on deposit at the place of payment at that time.

Redemption Payments. Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the Redemption Price of the Series 2003 C Bonds called, together with accrued interest on the Series 2003 C Bonds to the redemption date. After the redemption date, if prior notice of redemption by mailing has been given and sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Series 2003 C Bonds that have been called.

Book-Entry-Only System

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2003 C Bonds. The Series 2003 C Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2003 C Bond certificate will be issued for each maturity of the Series 2003 C Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over two million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over eighty-five countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry changes in Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The

Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies and Clearing Corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2003 C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2003 C Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2003 C Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2003 C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2003 C Bonds, except in the event that use of the book-entry system for the Series 2003 C Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003 C Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2003 C Bonds with DTC and their registration in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2003 C Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2003 C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2003 C Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2003 C Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2003 C Bond documents. For example, Beneficial Owners of Series 2003 C Bonds may wish to ascertain that the nominee holding the Series 2003 C Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2003 C Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2003 C Bonds unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Series 2003 C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

The principal and interest payments on the Series 2003 C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Bond Bank or the Trustee, on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the

responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. The payment of principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Bank or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2003 C Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2003 C Bond certificates will be printed and delivered.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE BOND BANK BELIEVES TO BE RELIABLE, BUT THE BOND BANK TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

In the event that either (i) the Bond Bank receives notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities as a clearing agency for the Series 2003 C Bonds or (ii) the Bond Bank elects to discontinue its use of DTC as a clearing agency for the Series 2003 C Bonds, then the Bond Bank and the Trustee will do or perform or cause to be done or performed all acts or things, not adverse to the rights of the holders of the Series 2003 C Bonds, as are necessary or appropriate to discontinue use of DTC as a clearing agency for the Series 2003 C Bonds and to transfer the ownership of each of the Series 2003 C Bonds to such person or persons, including any other clearing agency, as the holder of such Series 2003 C Bonds may direct in accordance with the Indenture. Any expenses of such a discontinuation and transfer, including any expenses of printing new certificates to evidence the Series 2003 C Bonds, will be paid by the Bond Bank.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Series 2003 C Bonds will be issued under and secured by the Indenture. The principal of, redemption premium, if any, and interest on any and all of the Series 2003 C Bonds, together with any Refunding Bonds that may be authorized and issued by the Bond Bank under the Indenture on a parity with the Series 2003 C Bonds (collectively, the "Bonds"), are payable from those revenues and funds of the Bond Bank which, together with the Series 2003 C Qualified Obligations and all other qualified obligations pledged under the Indenture (collectively, the "Qualified Obligations"), are pledged pursuant to the Indenture for the benefit of the owners of the Bonds equally, ratably and without priority.

Neither the faith, credit nor taxing power of the State of Indiana (the "State") or any political subdivision thereof including the Series 2003 C Qualified Entity (as defined in Appendix E), is pledged to the payment of the principal of, redemption premium, if any, and interest on any of the Bonds. The Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State or of any political subdivision thereof including the Series 2003 C Qualified Entity. The Bond Bank has no taxing power and has only those powers and sources of revenue set forth in the Act. The Bonds are issued and secured separately from any other obligations issued by the Bond Bank. The sources of payment of and security for, the Bonds are more fully described below.

Under the Indenture, the Bonds are secured by a pledge to the Trustee of the Qualified Obligations which will be purchased by the Bond Bank and delivered to the Trustee pursuant to a Purchase Agreement by and between the Bond Bank and the Series 2003 C Qualified Entity (a "Purchase Agreement") and all principal and interest payments made or required to be made on the Qualified Obligations (the "Qualified Obligation Payments"), as described therein. In addition, the Indenture pledges to the payment of the Bonds all proceeds of the Trust Estate, including without limitation all cash and securities held in the funds and accounts created by the Indenture, except for the Rebate Fund and the accounts thereunder, together with investment earnings thereon and proceeds thereof (except to the extent transferred to the Rebate Fund from such Funds and Accounts under the Indenture), and all other funds, accounts and moneys to be pledged by the Bond Bank to the Trustee as security under the Indenture, to

the extent of any such pledge. Under the Act and Indiana Code 5-1-14-4, such pledge is valid and binding from and after the date of delivery of the Series 2003 C Bonds under the Indenture and such Qualified Obligations and the Qualified Obligation Payments thereon shall be immediately subject to the lien of such pledge without any physical delivery of the payments or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Bond Bank, irrespective of whether such parties have notice thereof. The Qualified Obligation Payments with respect to the Series 2003 C Qualified Obligations have been structured as of the date of issuance of the Series 2003 C Bonds to be sufficient along with earnings thereon, and other money in the Funds and Accounts under the Indenture and the earnings thereon, to pay the principal of and interest on the Series 2003 C Bonds when due.

Provisions for Payment of the Qualified Obligations

The payment of principal of and interest on the Series 2003 C Qualified Obligations is derived by the Series 2003 C Qualified Entity from a special benefits tax to be levied and collected on all taxable property within the boundaries of the Series 2003 C Qualified Entity. The Series 2003 C Qualified Obligations have been issued pursuant to a detailed resolution of the governing body of the Series 2003 C Qualified Entity (the "Authorizing Instrument"). The source of payment on the Series 2003 C Qualified Obligations are further described below.

Procedures for Property Assessment, Tax Levy and Collection. Real and personal property in the State of Indiana ("State") is assessed each year as of March 1. On or before August 1 each year, the County Auditor must submit to each underlying taxing unit a statement of (i) the estimated assessed value of the taxing units as of March 1 of that year, and (ii) an estimate of the taxes to be distributed to the unit during the last six months of the current budget year. The estimated value is based on statements delivered to the Auditor by the township assessor or its designee on or before July 15.

The estimated value is used when the governing body of a local taxing unit meets to establish its budget for the next fiscal year (January 1 through December 31), and to set tax rates and levies. By statute, the budget, tax rate and levy must be established no later than September 20. The budget, tax levy and tax rate are subject to review and revision by the Department of Local Government Finance ("DLGF") which can lower, but not raise the tax levy or tax rate (with the exception of increasing any debt service or lease rental levy as may be required.) The DLGF must complete its actions on or before February 15.

On or before March 15, the County Auditor prepares and delivers the final abstract of property taxes to the State Auditor. The County Treasurer mails tax statements the following April (but mailing may be delayed due to reassessment or other factors). Property taxes are due and payable to the County Treasurer in two installments on May 10 and November 10. If an installment of taxes is not completely paid on or before the due date, a penalty of 10% of the amount delinquent is added to the amount due. On May 10 and November 10 of each year thereafter, an additional penalty equal to 10% of any taxes remaining unpaid is added. The penalties are imposed only on the principal amount of the delinquency. Property becomes subject to tax sale procedures after 15 months of delinquency. The County Auditor distributes property taxes collected to the various taxing units on or about the July 1 or January 1 after the due date of the tax payment.

Pursuant to State law, real property is valued for assessment purposes at its "True Tax Value" as defined in the 2002 Real Property Assessment Manual adopted by the DLGF ("Manual"), and is interpreted in the rules and regulations of the DLGF, including the 2002 Real Property Assessment Guidelines, Version A ("Guidelines") and the Real Property Assessment Rule, 50 IAC 2.3. The Manual defines "True Tax Value" as the "market value in use of property for its current use, as reflected by the utility received by the owner or a similar user from that property." The Manual permits assessing officials in each county to choose any acceptable mass appraisal method to determine "True Tax Value," taking into consideration the ease of administration and the uniformity of the assessments produced by that method. The Guidelines were adopted to provide assessing officials with an acceptable appraisal methodology, although the Manual makes it clear that assessing officials are free to select from any number of appraisal methods, provided that they are capable of producing accurate and uniform values throughout the jurisdiction and across all classes of property. The Manual specifies the standards for accuracy and validation that the DLGF will use to determine the acceptability of any alternate appraisal method.

"Net Assessed Value" or "Taxable Value" represents the "Gross Assessed Value" less certain deductions for, among other things, mortgages, veterans, the aged, the blind, economic revitalization, resource recovery systems, and tax-exempt property. The "Net Assessed Value" or "Taxable Value" is the value used for taxing purposes in the determination of tax rates.

If a change in assessed value occurs, a written notification is sent by either the township assessor or the County Board of Review to the affected property owner. Upon notification, if the owner wishes to appeal this action, the owner may file a petition requesting a review of the action. In order for any change in assessment to be effective in the current year, this petition must be filed with the County Auditor within 45 days after the written notification was mailed. While the appeal is pending, any taxes on real property which become due on the property in question must be paid in an amount based on the immediately preceding year's assessment or it may be based on the amount that is billed.

Indiana Code 6-1.1-21-5 provides each taxpayer with a property tax credit in an amount equal to the sum of the following: (a) sixty percent (60%) of a taxpayer's tax liability in a calendar year for taxes imposed by a school corporation for its general fund for a stated assessment year on all real and personal property; (b) approximately twenty percent (20%) of a taxpayer's tax liability for a stated assessment year for a total county tax levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) on real property; and (c) approximately twenty percent (20%) of a taxpayer's tax liability for a stated assessment year for a total county tax levy (less sixty percent (60%) of the levy for the general fund of a school corporation that is part of the total county tax levy) on tangible personal property other than business personal property.

On December 4, 1998, the Indiana Supreme Court affirmed in part and reversed in part a ruling by the Indiana Tax Court that the true tax value method of valuing property for purposes of levying property taxes was unconstitutional. *Town of St. John v. State Board of Tax Commissioners*, 702 N.E.2d 1034 (Ind. 1998). The Indiana Supreme Court ruled that the true tax value method is constitutional but the cost schedules used by the State Board of Tax Commissioners were unconstitutional. This ruling affects only the valuation method and not the ability to levy an unlimited property tax to pay debt service on the Series 2003 C Qualified Obligations. On May 31, 2000, the Indiana Tax Court ordered the State Board of Commissioners to complete the new assessment regulations by June 1, 2001 and to complete reassessment under those regulations by March 1, 2002. The State Board of Tax Commissioners (now the DLGF) published the new assessment rules, which were effective June 22, 2001, and reassessment is now underway. The Series 2003 C Qualified Entity cannot predict the impact on property tax collections, or the timing of, future judicial actions in this case, or legislation, regulations or rulings enacted to implement this ruling or property tax reform in general.

If the 2003 tax collections are delayed because of reassessment, the Series 2003 C Qualified Entity may borrow money in anticipation of that collection or use other available funds to pay the Series 2003 C Qualified Obligation debt service payments.

See Appendix B for additional information concerning the source of payment of the Series 2003 C Qualified Obligations.

Enforcement of the Qualified Obligations

As owner of the Qualified Obligations, the Bond Bank has available to it all remedies available to owners or holders of securities issued by the Series 2003 C Qualified Entity. The Act provides that upon the sale and the delivery of any Qualified Obligation to the Bond Bank, a Series 2003 C Qualified Entity will be deemed to have agreed that all statutory defenses to nonpayment are waived in the event that such Series 2003 C Qualified Entity fails to pay principal of or interest on such Qualified Obligation when due.

In the case of a Qualified Obligation that is a special taxing district bond or other tax-based obligation, under the Act, upon nonpayment and demand for payment and if the necessary funds are not available in the treasury of the Series 2003 C Qualified Entity for such payment, an action in mandamus will lie for the levy of a tax to make such payment. The Bond Bank will be constituted a holder or owner of securities that are in default. The Bond Bank is obligated under the Indenture to avail itself of all remedies and provisions of law applicable in the

circumstances, and the failure to exercise any right or remedy within a time or period provided by law may not, according to the Act, be raised as a defense by the defaulting Series 2003 C Qualified Entity.

Further, the Series 2003 C Qualified Entity, whose Qualified Obligations are subject to the Code, has agreed under the purchase agreement for its Qualified Obligations to report to the Bond Bank on its compliance with certain covenants which the Series 2003 C Qualified Entity has made regarding various actions and conditions necessary to preserve the tax exempt status of interest paid on the Qualified Obligations. See "TAX MATTERS." The Bond Bank has also determined to consult with the Series 2003 C Qualified Entity, as necessary from time to time, with regard to the action needed to be taken by each Series 2003 C Qualified Entity to preserve the exclusion of the interest on the Series 2003 C Bonds from the gross income of the holders of the Series 2003 C Bonds.

The Bond Bank will monitor the compliance and consult regularly with the Series 2003 C Qualified Entity with respect to its requirements under the Qualified Obligations, including the making of Qualified Obligation Payments to the Bond Bank.

Additional Bonds

Additional bonds of the Bond Bank may be issued on a parity with the Series 2003 C Bonds pursuant to the Indenture only for the purpose of refunding (in whole or in part) Bonds issued by the Bond Bank pursuant to the Indenture.

Debt Service Reserve Fund

The Act authorizes and the Indenture requires the Board of Directors of the Bond Bank to establish and maintain the Debt Service Reserve Fund in which there is to be deposited or transferred:

(i) Moneys available to the Bond Bank from proceeds of the sale of the Series 2003 C Bonds or a Debt Service Reserve Fund Credit Facility that satisfies the Reserve Requirement (as hereinafter defined), initially established under the Indenture in the amount of \$1,042,500, which amount equals ten (10) percent of the original stated principal amount of the Bonds;

(ii) All money required to be transferred to the Debt Service Reserve Fund for the replenishment thereof from another Fund or Account under the Indenture;

(iii) All money appropriated by the State for replenishment of the Debt Service Reserve Fund; and

(iv) Any other available money or funds that the Bond Bank may decide to deposit in the Debt Service Reserve Fund.

Under the Indenture, the Debt Service Reserve Fund is required to contain an amount equal to ten (10) percent of the original stated principal amount of the Bonds (the "Reserve Requirement"). Such amount will be decreased on the first day of each year to the maximum annual debt service on all Outstanding Bonds in the present or any succeeding Fiscal Year. Such amount will be invested and used to make a portion of the annual principal and semi-annual interest payments on the Bonds.

As permitted by the Act, the Indenture provides that, for purposes of computing amounts in the Debt Service Reserve Fund, Investment Securities, as defined in Appendix E, purchased as an investment of moneys in such Fund will be valued at their amortized cost. Moneys in the Debt Service Reserve Fund from time to time will be invested pursuant to the Indenture and it is anticipated that such investment and the earnings thereon will be used to pay a portion of the principal of and interest on the Series 2003 C Bonds. However, there can be no assurance that such moneys or the earnings thereon will be available, if and when needed, to pay debt service on the Series 2003 C Bonds. For further information regarding the nature of and requirements for the investment of the Debt Service Reserve Fund, see "RISKS TO THE OWNERS OF THE SERIES 2003 C BONDS."

State Appropriations Mechanism

The Act provides that the State General Assembly may annually appropriate to the Bond Bank for deposit in the Debt Service Reserve Fund any sum, required by the Act to be certified by the Chairman of the Board of Directors of the Bond Bank to the State General Assembly prior to December 1 of any year, as may be necessary to restore the Debt Service Reserve Fund to the amount then required to be on deposit in the Debt Service Reserve Fund to the Reserve Requirement. The Indenture further requires such certification to be made by the Chairman to the State General Assembly on or before August 1 of any fiscal year of the Bond Bank ("Fiscal Year") in which the amount in the Debt Service Reserve Fund is projected to be less than the Reserve Requirement. However, nothing in these provisions or any other provision of the Act creates a debt or liability of the State to make any payments or appropriations to or for the use of the Bond Bank. There can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately \$314,230,000 in separate program obligations secured by debt service reserve funds, which are also eligible for annual appropriations from the General Assembly.

In accordance with the Constitution of the State, the State General Assembly meets for a maximum period of 61 legislative days in every odd-numbered year in order to establish a budget and to make appropriations. The State General Assembly also meets for a maximum period of 30 legislative days in intervening years in order to make supplemental appropriations. Because the State General Assembly meets for only a portion of each year, there can be no representation or assurance that the State General Assembly could, if it elected to do so, take timely action upon a certificate from the Chairman of the Board of Directors of the Bond Bank in order to provide funds to avoid a default in the payment of principal of or interest on the Bonds.

Also under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

AGREEMENT WITH THE STATE

Under the Act, the State has pledged to and agreed with the owners of the bonds or notes of the Bond Bank, including the Series 2003 C Bonds, not to limit or restrict the rights vested in the Bond Bank by the Act to fulfill the terms of any agreements made with the owners of such bonds or notes or in any way impair the rights or remedies of such owners until the bonds and notes, together with interest thereon, and interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such owners are fully met, paid and discharged.

BOND INSURANCE

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Bond Bank to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2003 C Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times

as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2003 C Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2003 C Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2003 C Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal or interest on the Series 2003 C Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2003 C Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a Series 2003 C Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U. S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2003 C Bonds or presentment of such other proof of ownership of the Series 2003 C Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2003 C Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2003 C Bonds in any legal proceeding related to payment of insured amounts on the Series 2003 C Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2003 C Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "BOND INSURANCE." Additionally, MBIA makes no representation regarding the Series 2003 C Bonds or the advisability of investing in the Series 2003 C Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 2003 C Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's annual report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2003, MBIA had admitted assets of \$9.3 billion (unaudited), total liabilities of \$6.1 billion (unaudited), and total capital and surplus of \$3.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2003 C Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2003 C Bonds. MBIA does not guaranty the market price of the Series 2003 C Bonds nor does it guaranty that the ratings on the Series 2003 C Bonds will not be revised or withdrawn.

RISKS TO OWNERS OF THE SERIES 2003 C BONDS

Purchasers of the Bonds are advised of certain risk factors with respect to the payment of the Series 2003 C Bonds. This discussion is not intended to be all-inclusive, and other risks may also be present.

Sources of Payments for the Bonds

The ability of the Bond Bank to pay principal of, and interest on, the Series 2003 C Bonds depends primarily upon the receipt by the Bond Bank of payments pursuant to the Series 2003 C Qualified Obligations, including interest at the rates provided therein, together with earnings on the amounts in the Funds and Accounts sufficient to make such payments. Except for the Debt Service Reserve Fund, there is no source of funds which is required to make up for any deficiencies in the event of one or more defaults by the Series 2003 C Qualified Entity in such payments on its Series 2003 C Qualified Obligations. There can be no representation or assurance that the Series 2003 C Qualified Entity that issued the Series 2003 C Qualified Obligations will receive sufficient tax revenues, or otherwise have sufficient funds available to make its required payments on the Series 2003 C Qualified Obligations. The 2003 C Qualified Entity constitutes a special taxing district and therefore is a political subdivision under Indiana law. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Provisions for Payment of the Qualified Obligations."

Political subdivisions in Indiana may issue general obligation bonds and special taxing district bonds payable from unlimited ad valorem taxes and secured by the full faith and credit of the political subdivision or the special taxing district.

Each year, political subdivisions in Indiana are required to meet to fix a budget, establish a tax rate and determine the tax levy for the ensuing budget year. The officers of each political subdivision are required by the provisions of Indiana Code 6-1.1-18-3(b) to fix tax rates which are sufficient to provide funds to pay, among other things, the principal of and interest on any obligation of the political subdivision described therein. The appropriation is reviewed by the Department of Local Government Finance to ascertain that the amount of the appropriation is sufficient to meet the political subdivision's debt service obligations. Upon review, the Department of Local Government Finance is authorized by the provisions of Indiana Code 6-1.1-17-17 to increase the tax rate and tax levy of a political subdivision to pay, among other things (i) the principal and interest upon a fund, refunding or judgment funding obligation of the political subdivision, (ii) principal and interest upon an outstanding obligation of a political subdivision, (iii) a judgment rendered against a political subdivision or (iv) lease rentals of a political subsidiaries.

The State General Assembly may determine to appropriate funds to the extent of any deficiency in the Debt Service Reserve Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- State Appropriations Mechanism." However, the State General Assembly is not and cannot be obligated to appropriate any such funds. Moreover, the State General Assembly meets for only a portion of each year commencing in January and ending not later than April 30, unless extended by a special session called by the Governor, and there can be no representation or assurance (i) that a certificate from the Chairman of the Board of Directors of the Bond Bank, stating the amount of a deficiency in the Debt Service Reserve Fund, would be taken up for any or for early consideration by the State General Assembly, or (ii) that upon consideration of any such certificate, the State General Assembly would determine to appropriate funds to reduce or eliminate such deficiency, or (iii) that in the event the State General Assembly determined to make such an appropriation, the amounts thus appropriated would be forthcoming as of any particular date. In no event can or will the Series 2003 C Bonds be deemed to be a debt or obligation of the State. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- State Appropriations Mechanism."

Tax Exemption

The Bond Bank has covenanted under the Indenture to take all qualifying actions and not to fail to take any qualifying actions required to assure the continuing exclusion of interest on the Series 2003 C Bonds from gross income for Federal Income Tax purposes. Failure by the Bond Bank to comply with such covenants could cause the interest on the Series 2003 C Bonds to be taxable retroactive to the date of issuance. Also, in connection with the original purchase of the Series 2003 C Qualified Obligations, the Bond Bank received an opinion of counsel by a nationally recognized firm experienced in matters relating to municipal law and matters relating to the exclusion of interest payable on obligations of states and their instrumentalities and political subdivisions from gross income under federal tax law, acceptable to the Bond Bank and the Trustee (an "Opinion of Bond Counsel"), for the Series 2003 C Qualified Entity to the effect that conditioned upon continuing compliance by the Series 2003 C Qualified Entity with certain covenants made in connection with the issuance of such Series 2003 C Qualified Obligations, the

interest on the Series 2003 C Qualified Obligations is excluded from the gross income of the holder thereof for federal income tax purposes under existing statutes, decisions, regulations and rulings. However, the interest on such Series 2003 C Qualified Obligations could become taxable in the event that the Series 2003 C Qualified Entity fails to comply with certain of such covenants, including without limitation the covenant to rebate or cause to be rebated, if necessary, to the United States government all arbitrage earnings with respect to its Series 2003 C Qualified Obligations under certain circumstances and the covenant to take all actions and to refrain from such actions as may be necessary to prevent such Series 2003 C Qualified Obligations from being deemed to be “private activity bonds” under the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2003 C Bonds and any applicable regulations promulgated thereunder (the “Code”). Such an event could in turn adversely affect the exempt status of the interest on all of the Series 2003 C Bonds retroactive to the date of issuance. See “TAX MATTERS.” The Bond Bank is not aware of any circumstances that would cause the interest on the Series 2003 C Qualified Obligations to be includable for purposes of federal income tax under the Code, but has not undertaken any investigation in connection with this Official Statement.

Limited Remedies

The remedies available to the Trustee, to the Bond Bank or to the owners of the Bonds upon the occurrence of an Event of Default under the Indenture or under the terms of the Series 2003 C Qualified Obligations are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the “United States Bankruptcy Code”), the remedies provided in the Indenture and the Series 2003 C Qualified Obligations may not be readily available or may be limited.

Bond Insurance

The Series 2003 C Bond Insurer has issued the Series 2003 C Bond Insurance Policy, guaranteeing the payment of the principal (but not premium) of the Series 2003 C Bonds due at maturity, but not as a result of the acceleration thereof (unless consented to by the Series 2003 C Bond Insurer), and interest on the Series 2003 C Bonds due on the interest payment dates therefore. There can be no assurance that the Series 2003 C Bond Insurer will be financially able to meet its contractual obligations under the Series 2003 C Bond Insurance Policy. A form of the Series 2003 C Bond Insurance Policy is attached hereto as Appendix F. Certain information with respect to the Series 2003 C Bond Insurer is set forth under the caption “BOND INSURANCE” herein. Such information was provided by the Series 2003 C Bond Insurer and no representation is made as to the adequacy or the accuracy thereof.

So long as the Series 2003 C Bond Insurer performs its obligations under the Series 2003 C Bond Insurance Policy, the Series 2003 C Bonds cannot be accelerated without the prior written consent of the Series 2003 C Bond Insurer. Furthermore, so long as the Series 2003 C Bond Insurer performs its obligations under the Policy, the Series 2003 C Bond Insurer may direct any remedies that the Bondholders may exercise under the Indenture.

In the event that the Series 2003 C Bond Insurer is unable to make payments of principal of and interest on the Series 2003 C Bonds as such payments become due, the Series 2003 C Bonds are payable solely from moneys received by the Trustee as set forth in the Indenture.

In the event that the Series 2003 C Bond Insurer is required to pay principal of or interest on the Series 2003 C Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series 2003 C Bonds.

PLAN OF FINANCING

The Bond Bank will use a portion of the proceeds of the Series 2003 C Bonds to purchase the Series 2003 C Qualified Obligations identified in the table in Appendix B of this Official Statement. The Series 2003 C Qualified Entity issuing the 2003 C Qualified Obligations has represented to the Bond Bank that such Series 2003 C Qualified Entity will use the proceeds received by it in the sale of the Series 2003 C Qualified Obligations to the Bond Bank to refund bonds previously issued by the Series 2003 C Qualified Entity in accordance with its Authorizing Instrument.

APPLICATION OF PROCEEDS OF THE SERIES 2003 C BONDS

Set forth below is a summary of the estimated sources and uses of the proceeds of the Series 2003 C Bonds:

Sources:

| | |
|----------------------------|------------------------|
| Principal amount | \$10,425,000.00 |
| Net original issue premium | <u>400,922.65</u> |
| Total | <u>\$10,825,922.65</u> |

Uses:

| | |
|---|------------------------|
| Acquisition of 2003 C Qualified Obligations | \$9,520,000.00 |
| Costs of issuance | 150,000.00 |
| Sinking Fund Deposit | 230.00 |
| Underwriter's Discount | 60,192.65 |
| Premium for 2003 C Bond Insurance Policy | 53,000.00 |
| Debt Service Reserve | <u>1,042,500.00</u> |
| Total | <u>\$10,825,922.65</u> |

THE INDIANA BOND BANK

The Bond Bank was created in 1984, and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, but is separate from the State in its corporate and sovereign capacity and has no taxing power.

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and had outstanding as of the date of this Official Statement, an aggregate principal amount of approximately \$2,812,015,000 in separate program obligations not secured by the Indenture, approximately \$314,230,000 of which obligations are secured by debt service reserve funds eligible for annual appropriation by the State General Assembly. Additionally, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financing, if any, will be secured separately from the Series 2003 C Bonds and will not constitute Bonds under the Indenture or for purposes of this Official Statement.

The Act

Pursuant to the Act, the purpose of the Bond Bank is to assist "qualified entities", defined in the Act to include political subdivisions, as defined in Indiana Code 36-1-2-13, state educational institutions, as defined in Indiana Code 20-12-0.5-1, leasing bodies, as defined in Indiana Code 5-1-1-1(a), any commissions, authorities or authorized bodies of any qualified entity, and any organizations, associations or trusts with members, participants or beneficiaries that are all individually qualified entities. The Bond Bank provides such assistance through programs of among other things, purchasing the bonds, notes or evidences of indebtedness of such qualified entities. Under the Act, qualified entities include entities such as cities, towns, counties, school corporations, library corporations, special taxing districts, state educational institutions and nonprofit corporations and associations which lease facilities or equipment to such entities. Each of the entities listed in Appendix B is a "qualified entity" within the meaning of the Act.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a loan to or a lease or an agreement with a qualified entity, a purchase, acquisition or a sale of qualified obligations or other investments for the performance of its duties and execution of its powers under the Act;
2. Purchase, acquire or hold qualified obligations or other investments for the Bond Bank's own account or for a qualified entity at such prices and in a manner as the Bond Bank considers advisable, and sell or otherwise dispose of the qualified obligations or investments at prices without relation to cost and in a manner the Bond Bank considers advisable;
3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;
4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;
5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;
6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other Program Expenses properly attributable to qualified entities;
7. To the extent permitted by the indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;
8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;
9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;
10. Temporarily invest moneys available until used for making purchases, in accordance with the indenture or any other instrument authorizing the issuance of bonds or notes; and
11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at \$1,000,000,000. Such aggregate limit of \$1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes, or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest, and premium on the bonds, notes, or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;
2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee, or make investments other than as permitted by the Act;
3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;
4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business or act as a savings bank, savings and loan association or any other kind of financial institution; or
5. Engage in any form of private or commercial banking business.

Organization and Membership of the Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the five Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term as set forth below and until a successor is appointed and qualified. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.

The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

Directors

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana, Member, Indiana State Board Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Indiana Transportation Finance Authority.

Clark H. Byrum, Vice Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977 to present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990 to present; Board Member, NCB Corporation and NorCen Bank, 1986 to present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriters.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989 to present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Russell Breeden, III, Director; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to 2002. Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1988 to present.

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994 to Present; Chairman, State Board of Tax Commissioners, January 1991 -August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Marni McKinney, Director, term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman, First Indiana Bank; Vice Chairman & Chief Executive Officer, First Indiana Corporation; Board of Directors, Indianapolis Public Transit Authority; Member, America's Community Bankers Association.

Morris H. Mills, Director, term expires July 1, 2003. Residence: Ladoga, Indiana. Partner, Mills Bros. Farms; Member, Indiana State Senate, 1972 to 2000; Member, Indiana State House of Representatives, 1968 to 1972; Director and Officer, Maplehurst Group, 1954 to 1996.

The Directors are authorized to appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer of the Board of Directors. Dan Huge was appointed Executive Director of the Indiana Bond Bank on October 9, 2001. Mr. Huge previously served as the Deputy Director of the Indianapolis Local Public Improvement Bond Bank for over three years. Mr. Huge has over 14 years of corporate accounting and managerial experience. He is a Certified Public Accountant and holds a B.S. from Purdue University.

REVENUES, FUNDS AND ACCOUNTS

The Indenture creates certain Funds and Accounts identified in more detail below. Pursuant to the Indenture, the Trustee will deposit the net proceeds of the Series 2003 C Bonds, together with other moneys into these Funds and Accounts as described below. Appendix D sets forth a summary of certain provisions of the Indenture.

Creation of Funds and Accounts

The Indenture establishes the following Funds and Accounts to be held by the Trustee:

1. General Fund - comprised of the following:
 - (a) General Account
 - (b) Bond Issuance Expense Account
 - (c) Redemption Account
2. Debt Service Reserve Fund
3. Rebate Fund

Deposit of Net Proceeds of the Series 2003 C Bonds, Revenues and Other Receipts

On the date of delivery of the Series 2003 C Bonds, the Trustee will deposit the proceeds (net of underwriter's discount) from the sale of the Series 2003 C Bonds, together with other moneys made available by the Bond Bank, as follows:

(a) Into the Bond Issuance Expense Account of the General Fund, the amount of \$150,000 in order to pay the Costs of Issuance (other than the underwriter's discount retained by the Underwriter) and the premium for the 2003 C Bond Insurance Policy;

(b) Into the General Account of the General Fund, the sum of \$9,520,230, a portion of which in the amount of \$9,520,000 will be used to purchase the Series 2003 C Qualified Obligations and the remaining portion of which in the amount of \$230 will be used to pay a portion of the interest on the Series 2003 C Bonds on January 25, 2004; and

(c) Into the Debt Service Reserve Fund, in the amount of \$1,042,500 to fund the Reserve Requirement.

The Trustee will deposit all Revenues and all other receipts (except the proceeds of the Series 2003 C Bonds, and moneys received by the Bond Bank from the sale or redemption prior to maturity of the Series 2003 C Qualified Obligations) into the General Account of the General Fund and will deposit any moneys received from the sale or redemption prior to maturity of the Series 2003 C Qualified Obligations into the Redemption Account of the General Fund. Thereafter, the Trustee will deposit the proceeds of any Refunding Bonds as provided under the Supplemental Indenture authorizing the issuance of such Refunding Bonds.

OPERATION OF FUNDS AND ACCOUNTS

General Fund

General Account. The Trustee will deposit in the General Account of the General Fund all moneys required to be deposited therein pursuant to the Indenture. The Trustee will invest such funds in accordance with the Indenture and will make the following payments on the specific dates, and if there are not sufficient funds to make all the payments required, with the following order of priority:

(a) On the date of initial delivery of the Series 2003 C Bonds and upon the submission of requisitions of the Bond Bank signed by an Authorized Officer, stating that all of the requirements with respect to such financing set forth in the Indenture have been or will be complied with, an amount sufficient together with other money made available by the Bond Bank to purchase the Series 2003 C Qualified Obligations;

(b) On or before 10:00 A.M. in the city in which the Trustee is located, on the business day next preceding each Interest Payment Date, to the Trustee such amount as shall be necessary to pay the principal and interest coming due on the Bonds on such Interest Payment Date;

(c) As soon as funds become available, and only to the extent necessary, to the Debt Service Reserve Fund, sufficient amounts to assure that the Reserve Requirement is met;

(d) At such times as shall be necessary, the reasonable Program Expenses, if any, provided, that Program Expenses may not exceed the amounts set forth in the most recent Cash Flow Certificate;

(e) On or before thirty (30) days after each anniversary of the issuance of the Series 2003 C Bonds, any amount necessary to comply with any Rebate Fund requirements, to the extent such amounts are not assessed as Fees and Charges; and

(f) After making such deposits and disbursements and after the Trustee will make a determination of the amounts reasonably expected to be received in the form of Qualified Obligation Payments under the Indenture in the succeeding twelve months, to any other fund or account maintained by the Bond Bank, regardless of whether such fund or account is subject to the lien of the Indenture, all moneys in the General Fund which, together with such expected receipts for the succeeding twelve months are in excess of the amounts needed to pay principal and interest on the Bonds within the immediately succeeding twelve month period. No moneys shall be so transferred unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Bond Issuance Expense Account. The Trustee will disburse the amounts held in the Bond Issuance Expense Account upon receipt of invoices or requisitions certified by the Executive Director of the Bond Bank to pay the Costs of Issuance of the Bonds or to reimburse the Bond Bank for amounts previously advanced for such costs and to transfer moneys therefrom to the General Account. On December 19, 2003, any amounts remaining in the Bond Issuance Expense Account will be transferred to the General Account, at which time the Bond Issuance Expense Account may, at the direction of the Bond Bank, be closed.

Redemption Account. (a) The Trustee will deposit in the Redemption Account all moneys received upon the sale or redemption prior to maturity of the Qualified Obligations and will disburse the funds in the Redemption Account as follows:

(1) On the fifteenth day of each month, to the General Account amounts of moneys equal to the amount of principal which would have been payable during the following month if such Qualified Obligation had not been sold or redeemed prior to maturity.

(2) On the second business day next preceding each Interest Payment Date if moneys in the General Account are not sufficient to make the payments of principal and interest required to be made on such date, the Trustee shall transfer to the General Account moneys in the Redemption Account not already committed to the redemption of Bonds for which notice of redemption has been given.

(3) After making provisions for the required transfers to the General Account, (i) to redeem Bonds of such maturity or maturities as directed by an Authorized Officer of the Bond Bank, if such Bonds are then subject to redemption, (ii) to the extent there are any excess moneys in the Redemption Account, transfer to the General Account, (iii) to purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds are then subject to redemption, or (iv) to make investments of such moneys until the payment of Bonds at their maturity or maturities as directed by an Authorized Officer in accordance with the Indenture. Such purchase price may not, however, exceed the Redemption Price which would be payable on the next ensuing date on which the Bonds of the Series so purchased are redeemable according to their terms unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that the purchase at a price in excess of the Redemption Price will not result in Revenues, together with moneys expected to be held in the Funds and Accounts, being less than an amount equal to debt service on all Outstanding Bonds along with Program Expenses, if any. The Trustee will pay the interest accrued on the Bonds so purchased to the date of delivery thereof to the Trustee from the General Account and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of sixty (60) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption under the provisions of the Indenture or the Supplemental Indenture authorizing the issuance of such Bonds. The Trustee will deliver the Bonds so purchased to the Trustee within five (5) days from the date of delivery to the Trustee.

(4) In the event that the Trustee is unable to purchase Bonds in accordance with subparagraph (3), then, subject to restrictions on redemption set forth in the Indenture, the Trustee will call for redemption on the next redemption date such amount of Bonds of such maturity or maturities directed by an Authorized Officer of the Bond Bank as will exhaust the Redemption Account as nearly as possible at the applicable Redemption Price. The Trustee will pay the interest accrued on any such redeemed Bonds to the date of redemption from the General Account and will pay the Redemption Price from the Redemption Account.

(b) The Trustee may, upon written direction from the Bond Bank, transfer any moneys in the Redemption Account to the General Account if the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that after such transfer and after any transfer from the General Account to the Bond Bank, Revenues, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any.

Debt Service Reserve Fund

The Trustee will deposit in the Debt Service Reserve Fund all moneys required to be deposited therein pursuant to the Indenture, will invest such funds, and, except as provided in the Indenture, will disburse the funds held in the Debt Service Reserve Fund solely to the General Account for the payment of interest on and principal of the Bonds and only in the event that moneys in the General Account are insufficient to pay principal of and interest on the Bonds after making all of the transfers thereto required to be made under the Indenture from the Redemption Fund have been made. Amounts in the Debt Service Reserve Fund in excess of the Reserve Requirement will be transferred to the General Account of the General Fund.

The Bond Bank may cause to be deposited into the Debt Service Reserve Fund for the benefit of the holders of the Series 2003 C Bonds a Debt Service Reserve Fund Credit Facility. If such deposit causes the Debt Service Reserve Fund to be equal to the Reserve Requirement, moneys in the Debt Service Reserve Fund in excess of that needed for the Debt Service Reserve Fund to be equal to the Reserve Requirement will be moved in accordance with the Indenture, subject to the satisfaction of any Debt Service Reserve Fund Reimbursement Obligations from such excess as described below. If a disbursement is made pursuant to a Debt Service Reserve Fund Credit Facility, the Bond Bank will be obligated (but solely from the appropriations, if any, made and available pursuant to the Indenture or if otherwise available from the Trust Estate) within twelve (12) months from the date on which such disbursement was made, to cure such deficiency, either (i) to reinstate the maximum limits of such Debt Service Reserve Fund Credit Facility or (ii) to deposit cash into the Debt Service Reserve Fund, or a combination of such alternatives, so that the Debt Service Reserve Fund is equal to the Reserve Requirement. The Trustee will include in the total amount held in the Debt Service Reserve Fund an amount equal to the maximum principal amount which could be drawn by the Trustee under any such Debt Service Reserve Fund Credit Facility on deposit with the Trustee. Amounts required to be deposited in the Debt Service Reserve Fund will include any amount required to satisfy a Debt Service Reserve Fund Reimbursement Obligation for any Debt Service Reserve Fund Credit Facility. The Trustee is authorized to move the amounts to satisfy the Debt Service Reserve Fund Reimbursement Obligations to the provider of the Debt Service Reserve Fund Credit Facility.

Rebate Fund

The Trustee will establish, designate appropriately and maintain, so long as any Bonds are outstanding and are subject to a requirement that arbitrage profits be rebated to the United States, a separate fund to be known as "Rebate Fund." The Trustee will make information regarding the Bonds and investments hereunder available to the Bond Bank and will make deposits in and disbursements from the Rebate Fund in accordance with the written instructions received from the Bond Bank and pursuant to the Indenture, will invest the Rebate Fund pursuant to written investment instructions received from the Bond Bank and will deposit income from such investments immediately upon receipt thereof in the Rebate Fund.

If a deposit to the Rebate Fund is required as a result of the computations made by the Bond Bank, the Trustee will upon receipt of written directions from the Bond Bank accept such payment for the benefit of the Bond Bank. If amounts in excess of that required to be rebated to the United States of America accumulate in the Rebate Fund, the Trustee will upon written direction from the Bond Bank transfer such amount to the General Account. Records of the determinations required by the Indenture and the investment instructions must be retained by the Trustee until six (6) years after the Bonds are no longer Outstanding.

Not later than sixty (60) days after the fifth anniversary of the date of issuance of the Series 2003 C Bonds, and every five (5) years thereafter, the Bond Bank will disburse to the United States 90% of the amount required to be paid to the United States pursuant to the Code from amounts in the Rebate Fund, and not later than sixty (60) days after the final retirement of the Bonds, the Bond Bank will disburse to the United States the amount required to be paid to the United States pursuant to the Code as of such retirement date. Each payment required to be paid to the United States pursuant to the Indenture will be, together with a properly completed Form 8038-T, filed with the Internal Revenue Service Center, Ogden, Utah 84201 or such other location as the Code shall require.

Amounts Remaining in Funds

Any amounts remaining in any Fund or Account after full payment of all of the Bonds outstanding under the Indenture, all required rebates and the fees, charges and expenses of the Trustee will be distributed to the Bond Bank.

LITIGATION

There is not now pending or, to the Bond Bank's knowledge, threatened any litigation restraining or enjoining the issuance, sale, execution or delivery of the Series 2003 C Bonds; seeking to prohibit any transactions contemplated by the Indenture; in any way contesting or affecting the validity of the Series 2003 C Bonds or the Series 2003 C Qualified Obligations or any proceedings of the Bond Bank taken with respect to the issuance or sale of the Series 2003 C Bonds, or the Pledges (as hereinafter defined under "ENFORCEABILITY OF REMEDIES") or application of any moneys or security provided for payment of the Series 2003 C Bonds or the Series 2003 C Qualified Obligations. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present directors or other officers of the Bond Bank to their respective offices is being contested.

TAX MATTERS

In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2003 C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Series 2003 C Bonds (the "Code"). The opinion of Barnes & Thornburg, is based on certain certifications, covenants and representations of the Bond Bank and the Series 2003 C Qualified Entity issuing the Series 2003 C Qualified Obligations and is conditioned on continuing compliance therewith. In the opinion of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, under existing law, interest on the Series 2003 C Bonds is exempt from income taxation in the State of Indiana for all purposes except the State financial institutions tax. See Appendix C for the form of Bond Counsel opinion.

The Code imposes certain requirements which must be met subsequent to the issuance of the Series 2003 C Bonds as a condition to the exclusion from gross income of interest on the Series 2003 C Bonds for federal tax purposes. Noncompliance with such requirements may cause interest on the Series 2003 C Bonds to be included in gross income for federal tax purposes retroactive to the date of issue, regardless of the date on which noncompliance occurs. Should the Series 2003 C Bonds bear interest that is not excluded from gross income for federal income tax purposes, the market value of the Series 2003 C Bonds would be materially and adversely affected. The Tax Covenants include covenants that (i) the Bond Bank and Series 2003 C Qualified Entity will not take or fail to take any action with respect to the Series 2003 C Bonds, if such action or omission would result in the loss of the exclusion from gross income for federal tax purposes of interest on the Series 2003 C Bonds under Section 103 of the Code, and the Bond Bank and Series 2003 C Qualified Entity will not act in any other manner which would adversely affect such exclusion; (ii) the Bond Bank and Series 2003 C Qualified Entity will not make any investment or do any other act or thing during the period that the Series 2003 C Bonds are outstanding which would cause the Series 2003 C Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code; and (iii) if required by the Code, the Bond Bank will rebate any necessary amounts to the United States of America. It is not an event of default under the Indenture or the Authorizing Instrument if interest on the Series 2003 C Bonds or the Series 2003 C Qualified Obligations, respectively, is not excluded from gross income for federal tax purposes pursuant to any provision of the Code which is not in effect on the date of issuance of the Series 2003 C Bonds.

The interest on the Series 2003 C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, interest on the Series 2003 C Bonds is includable in adjusted current earnings in calculating corporate alternative minimum taxable income for purposes of the corporate alternative minimum tax.

Indiana Code 6-5.5 imposes a franchise tax on certain taxpayers (as defined in Indiana Code 6-5.5) which, in general, include all corporations which are transacting the business of a financial institution in Indiana. The franchise tax is measured in part by interest excluded from gross income under Section 103 of the Code minus associated expenses disallowed under Section 265 of the Code.

Although Bond Counsel will render an opinion that interest on the Series 2003 C Bonds is excluded from gross income for federal tax purposes and exempt from certain State income tax, the accrual or receipt of interest on the Series 2003 C Bonds may otherwise affect an owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the owner's particular tax status and the owner's other items of income or deduction. Except as expressly set forth above, Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Series 2003 C Bonds should consult their own tax advisors with regard to other tax consequences of owning the Series 2003 C Bonds.

The foregoing does not purport to be a comprehensive description of all of the tax consequences of owning the Series 2003 C Bonds. Prospective purchasers of the Series 2003 C Bonds should consult their own tax advisors with respect to the foregoing and other tax consequences of owning the Series 2003 C Bonds.

ORIGINAL ISSUE DISCOUNT

The Series 2003 C Bond maturity schedule shown on the inside cover page of this Official Statement sets forth the interest rates and yield to maturity for the Series 2003 C Bonds. Certain of the Series 2003 C Bonds (or portions thereof) have a yield to maturity that exceeds the stated interest rate (collectively, the "Discount Bonds"). As a result, the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the inside front cover of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending on January 25 and July 25 (with straight line interpolation between compounding dates). A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity and who holds such Discount Bond to maturity will treat the full amount of original issue discount as interest which is excluded from the gross income of the owner of that Discount Bond for federal income tax purposes.

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

The original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a later year.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The Series 2003 C Bond maturity schedule shown on the inside cover page of this Official Statement sets forth the interest rates and yield to maturity (or yield to the par call date) for each maturity (or portions thereof) of the Series 2003 C Bonds. Certain of the Series 2003 C Bonds have a yield to maturity (or yield to par call date) that is less than the stated interest rate (collectively, the “Premium Bonds”). As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the “Bond Premium”). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner’s basis in the Premium Bond downward as a result of the amortization of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer’s yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth at Section 171(b) of the Code. No income tax deduction for the amount of Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Series 2003 C Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities, are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning the treatment of Bond Premium.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the holders of the Series 2003 C Bonds upon a default under the Indenture to the Trustee or the Bond Bank under the Series 2003 C Qualified Obligations, the purchase agreements for the Series 2003 C Qualified Obligations and the Authorizing Instrument, or to any party seeking to enforce the pledges securing the Series 2003 C Bonds or the Series 2003 C Qualified Obligations described herein (collectively the “Pledges”), are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided (or which may be provided) in the Indenture, the purchase agreements for the Series 2003 C Qualified Obligations, the Series 2003 C Qualified Obligations and the Authorizing Instrument, or to any party seeking to enforce the Pledges, may not be readily available or may be limited. Under Federal and State environmental laws certain liens may be imposed on property of the Bond Bank or the Series 2003 C Qualified Entity from time to time, but the Bond Bank has no reason to believe, under existing law, that any such lien would have priority over the lien on the Qualified Obligation Payments pledged to owners of the Series 2003 C Bonds under the Indenture or over the liens pledged to the owner of the Series 2003 C Qualified Obligations under the Authorizing Instrument.

The various legal opinions to be delivered concurrently with the delivery of the Series 2003 C Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, by general principles of equity (regardless of whether such enforceability is considered to a proceeding in equity or at law) and by public policy. These exceptions would encompass any exercise of the Federal, State or local police powers in a manner consistent with the public health and welfare. Enforceability of the Indenture, the purchase agreements for the Series 2003 C Qualified Obligations, the Authorizing Instrument and the Pledges in a situation where such enforcement may adversely affect public health and welfare may be subject to these police powers.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance, sale and delivery of the Series 2003 C Bonds are subject to the approval of Barnes & Thornburg, Indianapolis, Indiana, Bond Counsel, whose approving legal opinion will be delivered with the Series 2003 C Bonds, substantially in the form attached hereto as Appendix C. Certain

legal matters will be passed on by Issuer's Counsel, Bingham McHale LLP, Indianapolis, Indiana, and Krieg DeVault LLP, Indianapolis, Indiana, counsel for the Underwriter.

RATING

S&P has assigned a rating of "AAA" to the Series 2003 C Bonds. Such rating is conditional upon the issuance of the Series 2003 C Bond Insurance Policy. This rating reflects only the view of S&P and an explanation thereof may be obtained from S&P at 55 Water Street, New York, New York 10041. Such rating is not a recommendation to buy, sell or hold the Series 2003 C Bonds. There is no assurance that such rating will remain in effect for any given period of time or that such rating will not be lowered or withdrawn entirely by S&P if, in its judgment, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the owners of the Series 2003 C Bonds any proposed revision or withdrawal of the rating of the Series 2003 C Bonds or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of rating may have an adverse effect on the market price or marketability of the Series 2003 C Bonds.

UNDERWRITING

The Series 2003 C Bonds are being purchased by the Underwriter set forth on the inside cover page of this Official Statement. The Underwriter has agreed to purchase the Series 2003 C Bonds at an aggregate purchase price of \$10,712,730, which represents the par amounts set forth on the inside cover hereof, plus original issue premium of \$400,922.65 and less an underwriting fee of \$60,192.65 and bond insurance premium of \$53,000 (which premium will be wired by the Underwriter to MBIA on the date of delivery of the Series 2003 C Bonds) pursuant to a contract of purchase entered into by and between the Bond Bank and the Underwriter. Such contract of purchase provides that the Underwriter will purchase all of the Series 2003 C Bonds if they are purchased. The initial offering price may be changed from time to time by the Underwriter.

The Underwriter has agreed to make a bona fide public offering of all of the Series 2003 C Bonds at prices not in excess of the initial public offering prices set forth or reflected inside the front cover page of this Official Statement. The Underwriter may sell the Series 2003 C Bonds to certain dealers (including dealers depositing Series 2003 C Bonds into investment trusts) and others at prices lower than the offering prices set forth inside the cover page hereof.

VERIFICATION OF MATHEMATICAL CALCULATIONS

The accuracy of certain mathematical computations showing that payments on the Qualified Obligations, together with other available revenues, have been structured to be sufficient to pay principal of and interest on the Series 2003 C Bonds when due will be verified by Crowe, Chizek and Company LLP, independent certified public accountants. Such verifications shall be based upon certain information and assumptions supplied by the Bond Bank and the Underwriter.

SERIES 2003 C BONDS AS LEGAL INVESTMENTS

Pursuant to the Act, all Indiana financial institutions, investment companies, insurance companies, insurance associations, executors, administrators, guardians, trustees, and other fiduciaries may legally invest sinking funds, money, or other funds belonging to them or within their control in bonds or notes issued by the Bond Bank.

AVAILABILITY OF DOCUMENTS AND FINANCIAL INFORMATION

Separate audited financial reports of the State and the Bond Bank, respectively, (collectively, the “Financial Reports”) are prepared annually and are presently available for the year ended June 30, 2002, and prior years. No financial reports related to the foregoing entities are prepared on an interim basis and there can be no assurance that there have not been material changes in the financial position of the foregoing entities since the date of the most recent available Financial Statements. Upon request and receipt of payment for reasonable copying, mailing and handling charges, the Bond Bank will make available copies of the most recent Financial Reports, any authorizing or governing instruments defining the rights of owners of the Series 2003 C Bonds or the owners of the Qualified Obligations and available financial and statistical information regarding the Bond Bank and the Series 2003 C Qualified Entity. Requests for documents and payments therefor should be directed and payable to the Indiana Bond Bank, 2980 Market Tower, 10 West Market Street, Indianapolis, Indiana 46204.

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the “Rule”) promulgated by the Securities and Exchange Commission (the “SEC”), and the terms of the Continuing Disclosure Undertaking Agreement (the “Undertaking”), among the State, the Bond Bank and the Trustee, the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent, the following annual financial information and operating data, as long as the State is an “obligated person” (within the meaning of the Rule) with respect to the Bonds (or until such time as the Bonds may be defeased or paid in full, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository (“NRMSIR”) and to the Indiana state information depository, if any (the “State Depository”), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ended June 30, 2003, together with the independent auditor’s report and all notes thereto; if audited financial statements are not available within 220 days following the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2003, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR and to the State Depository, if any, within 220 days of the close of the fiscal year of the State, beginning with the fiscal year ended June 30, 2003, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix A - “FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA.”

(The information described in items 1 and 2 above is referred to as the “Annual Information.”)

Pursuant to the terms of the Undertaking, the Bond Bank (and the State, but only to the extent the State shall have actual knowledge of such event) will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board (the “MSRB”), and to the State Depository, if any, the following event notices, if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;

- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State or the Bond Bank may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above.

While the Bonds are outstanding, the 2003 C Qualified Entity has agreed to provide to the Bond Bank the preceding event notices with regard to the 2003 C Qualified Obligations, with respect to which it is an obligated person, if material, and in a timely manner, and has agreed to provide the following information while any 2003 C Qualified Obligations, with regard to which it is an obligated person, are outstanding:

Financial Information. An update of the financial information and operating data relating to such entity of the same nature as that contained in Appendix B to each NRMSIR, to the State Depository, if any, and to the Bond Bank, within 180 days after each December 31, commencing with the calendar year ending December 31, 2003.

Audited Financial Statements. To each NRMSIR, to the State Depository, if any, and to the Bond Bank, when and if available, the audited financial statements of such entity as prepared and examined by the State Board of Accounts for each twelve (12) month period ending December 31, commencing with the year ending December 31, 2003, together with the opinion of such accountants and all notes thereto, within sixty (60) days of receipt of such statements from the State Board of Accounts.

Failure to Disclose

In a timely manner, the Trustee shall notify each NRMSIR or the MSRB, and the State Depository, if any, of any failure on the part of the State to provide the Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR and to the State Depository, if any, along with the Annual Information required as specified above and containing such information as is still available, will satisfy the State's undertaking to provide the Annual Information. To the extent available, the State will cause to be filed along with the Annual Information operating data similar to that which can no longer be provided.

Accounting Principles

The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

Remedies

The Undertaking is solely for the benefit of the holders and beneficial owners of the Bonds and creates no new contractual or other rights for the SEC, any underwriters (other than the Underwriters), brokers, dealers, municipal securities dealers, potential customers, or other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State or the Bond Bank. This remedy may be exercised by any holder or beneficial owner of the Bonds who may seek specific performance by court order to cause the State to comply with its disclosure obligations under the Undertaking.

Modification of Undertaking

The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the beneficial owners of the Bonds if either: (a) (i) such

amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or beneficial owners of the Bonds, as determined either by (A) any person selected by the State that is unaffiliated with the State (including the Trustee) or (B) an approving vote of the holders of the requisite percentage of Outstanding Bonds as required under the Indenture at the time of such amendment or modification; or (b) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by law or the Rule, as then in effect.

The Annual Information for the fiscal year during which any such amendment or modification occurs that contains the amended or modified Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of Annual Information being provided.

Copies of the Undertaking are available from the Bond Bank upon request.

Compliance with Previous Undertakings

In the previous five (5) years, the Bond Bank, the State, and the 2003 C Qualified Entity have never failed to comply in all material respects with any previous undertakings in a written contract or agreement that any of them entered into pursuant to subsection (b)(5) of the Rule.

MISCELLANEOUS

The references, excerpts, and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Series 2003 C Bonds, the security for the payment of the Series 2003 C Bonds and the rights of the owners thereof. During the period of the offering, copies of drafts of such documents may be examined at the Offices of the Underwriter; following delivery of the Series 2003 C Bonds, copies of such documents may be examined at the offices of the Bond Bank.

The information contained in this Official Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinions or estimates, whether or not expressly so stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof. This Official Statement is submitted in connection with the issuance and sale of the Series 2003 C Bonds and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract or agreement between the Bond Bank, the Series 2003 C Qualified Entity, the Trustee, or the Underwriter and the purchasers or owners of any Series 2003 C Bonds. The delivery of this Official Statement has been duly authorized by the Board of Directors of the Bond Bank.

INDIANA BOND BANK

By: /s/ Tim Berry
Tim Berry, Chairman, Ex Officio

Dated: June 6, 2003

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APPENDIX A

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

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APPENDIX A
FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA

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I. INTRODUCTION

This Financial and Economic Statement (the “Statement”) and “Appendix A” for the State of Indiana (the “State”) includes a discussion of the State’s economic and fiscal condition, the results of operations for the past two years and revenue and expenditure projections through the end of the biennium ending June 30, 2005. The information is compiled on behalf of the State by the Indiana State Budget Agency and the Public Finance Office and includes information and data taken from the State Budget Agency’s unaudited reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled “Litigation” has been furnished by the office of the State Attorney General.

This Appendix A is dated as of May 29, 2003. The State expects to update the entire Statement not less than annually. The status of this Statement or any updates or supplements may be obtained by contacting the Public Finance Office, State of Indiana, One North Capitol, Suite 900, Indianapolis, Indiana 46204, Tel: (317) 233-4332. This Statement should be read in its entirety, together with any supplements.

II. STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of State government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, Auditor of State, Treasurer of State, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to “take care that the laws are faithfully executed.” The Governor may recommend legislation to the General Assembly of the State (the “General Assembly”), may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). If the Governor vacates the office or is unable to discharge the Governor’s duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The Treasurer of State is responsible for holding and investing all State revenues and disburses money upon warrants issued by the Auditor of State. The Treasurer of State is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The Treasurer of State is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The Auditor of State maintains the State’s centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most

State employees. The Auditor of State is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The Auditor of State is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Information Technology Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in November of each even-numbered calendar year. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The members of the House of Representatives select the Speaker from among the ranks of the House. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State Constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

III. FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the twelve-month period beginning on July 1 and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system that processes all payments for State agencies and institutions with the exception of State colleges and universities. The Auditor of State is responsible for the pre-audit of all payments, the issuance of all warrants and the maintenance of the accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the State Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments. Capital is allotted as projects are approved by the State Budget Committee.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis of accounting. Government-wide financial statements are recognized as full accrual basis of accounting and fund statements are recognized as modified accrual basis of accounting in accordance with generally accepted accounting principles for government financial reporting purposes.

Fund Structure

Funds are used to record the financial activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government that are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for example, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTR Fund") is also reported as a Special Revenue Fund by the Auditor of State. The PTR Fund is funded from 50% of State sales and use tax revenues, a portion of individual income tax receipts, and a portion of Gaming Revenues. The PTR Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a Special Revenue Fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund, so as to provide a more complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTR Fund are sometimes discussed in this Appendix A as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units that are bodies corporate and politic with the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds are used to account for a government's business-type activities. They use the accrual basis of accounting. There are two types of Proprietary Funds, Enterprise Funds and Internal Service Funds. Enterprise Funds are used to account for provision of services to customers outside the government. Examples are the State Lottery Commission and Inns and Concessions. Internal Service Funds are used to account for provision of services to other funds, departments or agencies of the government. An example is the State Office Building Commission.

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and cannot be used to support government programs. They use the accrual basis of accounting. Indiana has three types of these funds: Pension Trust Funds, Private-purpose Trust Funds, and Agency Funds. Pension Trust Funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans. Examples are the State Police Pension Fund and the Employees' Deferred Compensation Fund. Private-purpose Trust Funds are used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations, or other governments. Examples are the Student Loan Program Fund and the Abandoned Property Fund. Agency funds are used to account for situations where the government's role is purely custodial, such as the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. Examples are the Child Support Fund and the Local Distributions Fund.

Budget Process

State Budget Agency. The State Budget Agency is responsible for preparing the State budget. After the budget is enacted by the General Assembly, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

Budget Committee. The State Budget Committee consists of the State Budget Director and four State legislators. The Budget Committee oversees the preparation of the budget and administration of capital budgets after enactment. The legislative members of the Budget Committee consist of two members of the Senate, appointed by the President *pro tempore* of the Senate, and two members of the House of Representatives, appointed by the Speaker of the House of Representatives. One of the two appointees from each chamber must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective chamber and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State's budget process is set out in statute. The State operates under a two-year budget; the legislature enacts one act containing two annual budgets. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request. In September of each even-numbered year, the Budget Committee begins hearings on budget requests. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor.

Revenue Projections Revenue projections are prepared by the Indiana Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables that may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists from Indiana and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Budget Committee appoint one additional member from a higher education institution for a total of six members. Members of the Technical Forecast Committee are individuals with expertise in public finance.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee, although the Economic Forecast Committee provides the economic assumptions used by the Technical Forecast Committee in preparing revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through hearings and other inquiries. If the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bill, the recommendation of the Budget Agency is included in the bill. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bill to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bill first and sends it to the Senate for consideration.

The budget report includes (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the State capital improvement program, and (e) the budget bill.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the Auditor of State and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance for the ensuing Fiscal Year. The Auditor of State then establishes the necessary accounts based upon the list.

Intra-Agency Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. By statute, the Budget Agency may, with the approval of the Governor and the State Budget Director, transfer, assign or reassign all or any part of any appropriation made to any agency for a specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose that an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make “contingency appropriations” to the Budget Agency, which are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorized expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;
2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;
3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or
4. without limiting the foregoing, supplement an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project.

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the “Finance Board”) consists of the Governor, the Treasurer of State and the Auditor of State. The Finance Board elects from its membership a president, who, by tradition, is the Governor. The Auditor of State is the secretary of the Finance Board. The Finance Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Finance Board may transfer money between funds, except trust funds, and the Finance Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Finance Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting “casual deficits” in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Finance Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Finance Board has never negotiated a loan to meet a deficit in State revenues.

Cash Management and Investments

The Treasurer of State is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The Treasurer of State is responsible for investing the General Fund, the PTR Fund, and more than 60 other funds. Indiana Code 5-13 sets forth certain limitations on the types and amounts of investments in which the Treasurer of State may invest State funds. These investments include securities (a) that are backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States and (b) issued by the United States Treasury, a federal agency, a federal instrumentality or a federal government sponsored enterprise, as well as (c) other securities specified in statute. Additionally, investments may include repurchase agreements fully collateralized by securities listed in (a) and (b) above and certain deposit accounts insured by the Public Deposit Insurance Fund. No more than 25% of the total portfolio invested by the Treasurer of State may be made in securities maturing from two to five years, and no such security may have a maturity in excess of five years.

Audits

The State Board of Accounts is a State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of government it audits, including the comprehensive annual financial report (or CAFR) prepared annually by the Auditor of State.

Certain Financial Information Incorporated by Reference; Availability from NRMSIRs, State

The Indiana Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2002 (the “2002 Financial Report”) is incorporated in this Appendix A by reference. So long as the State is deemed to be an “obligated person” under the meaning of Rule 15c2-12 of the Securities and Exchange Commission, it will file annually such a financial report with the following Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) in accordance with SEC Rule 15c2-12: Bloomberg Municipal Repository, FT Interactive Data, DPC Data, Inc., and Standard & Poor’s J.J. Kenny Repository.

A copy of the 2002 Financial Report may be obtained from the NRMSIRs. In addition, the 2002 Financial Report may be found at: <http://www.in.gov/idfa/pfo>

The 2002 Financial Report that may be found at the referenced website is intended to provide financial information about the State prepared and published by the Auditor of State. It is not, by itself, intended to present investment information about any particular bond issue, including the bonds offered with this Appendix A, within the meaning of applicable securities laws. Investment decisions should be made only after full review of the official statement for a particular bond issue, including the bonds offered with this Appendix A.

The 2002 Financial Report that may be found at the referenced website speaks only as of its date. There should be no implication that there has been no change in the financial or other affairs of the State or any other person described in this Statement or in the 2002 Financial Report after the date of the 2002 Financial Report.

IV. STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as “State Operating Revenues” and “Operating Revenues.” Operating Revenues are defined as the total of General Fund and PTR Fund revenues forecasted by the Technical Forecast Committee. Total Operating Revenues together with “DSH revenues” transferred to the General Fund, plus transfers from other funds when necessary and available, are used in the determination of the State’s unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. “DSH” is an acronym for “Disproportionate Share for Hospitals (federal funds),” and DSH revenues constitute additional Medicaid reimbursements provided to the State for hospitals that serve disproportionately large numbers of poor

people. See "STATE BUDGET PROFILE AND FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Major General Fund and PTR Fund Revenue Sources

Sales and use and corporate and individual income taxes are the three primary sources of State Operating Revenues. In addition, legislation passed by the 2002 General Assembly, directs the deposit of wagering taxes into the PTR Fund, making wagering taxes another source of Operating Revenues beginning in Fiscal Year 2003. Table IV-1 provides annual revenues by source and growth rates over time. The following is a summary of Operating Revenues.

Sales and Use Taxes. The General Assembly increased the sales and use tax rate from 5.0% to 6.0%, effective December 1, 2002. This tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 6.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs. The sales and use tax rates were last increased in Fiscal Year 1983.

Corporate Income Taxes. As part of tax restructuring legislation passed in 2002, the General Assembly repealed the gross income tax and the supplemental corporate net income tax and increased the corporate adjusted gross income tax rate to 8.5% of apportioned Indiana adjusted gross income (AGI). These changes were effective January 1, 2003.

The adjusted gross income tax is applicable to corporations doing business in the State. Prior to the change in tax rate, the effective rate for a taxpayer paying adjusted gross income tax and supplemental net income tax was 7.47%. AGI is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax. Adjusted gross income tax collections are allocated to the General Fund.

The utilities receipts tax is based on gross receipts from retail utility sales. It is imposed at a rate of 1.4% and was effective January 1, 2003. Utilities must also pay the corporate adjusted gross income tax.

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents with income derived from Indiana sources is taxed at 3.4%. All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund and PTR Fund. State individual income tax rates were last increased effective CY 1988.

Wagering Tax. The wagering tax is applied to the adjusted gross receipts of riverboat gambling operations in Indiana. Prior to Fiscal Year 2003 all wagering taxes earned by the State were deposited into the Build Indiana Fund. Legislation passed by the Special Session of the 2002 General Assembly changed the collection and distribution of wagering taxes and allowed riverboats to implement flexible scheduling, enabling patrons to gamble while a riverboat is docked. The legislation imposes a graduated wagering tax on riverboats that adopt flexible scheduling. The graduated tax is set at 15% of the first \$25.0 million of adjusted gross receipts in a fiscal year, 20% of receipts between \$25.0 million and \$50.0 million, 25% of receipts between \$50.0 million and \$75.0 million, 30% of receipts between \$75.0 million and \$150.0 million, and 35% of adjusted gross receipts in excess of \$150.0 million. The wagering tax on riverboats that do not implement flexible scheduling increased from 20% to 22.5% of adjusted gross receipts; however, all riverboats operating in Indiana have implemented flexible scheduling.

The legislation also changed the distribution of wagering taxes. The first \$33.0 million of wagering taxes collected in the State's fiscal year must be set aside for revenue sharing among local units of government that do not have riverboats. Of the remaining revenue, 25% is distributed to the cities and counties with riverboat operations,

and 75% is deposited in the PTR Fund. From the revenue distributed to the PTR Fund, an amount is distributed annually to the Build Indiana Fund.

Other Operating Revenues. Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. In 2002, the General Assembly increased the cigarette tax by \$0.40 per pack, to \$0.555 per pack, and increased the tax on other tobacco products by 3%.

Revenue History

Annual percentage changes for each component of Operating Revenues are reflected in Table IV-1. The table also includes actual revenue for prior Fiscal Years as well as forecasted revenue for Fiscal Years 2003, 2004 and 2005.

Table IV-1
State Operating Revenues
(Millions of Dollars)

| | <u>Sales Tax</u> | <u>Individual Income</u> | <u>Corporate Income</u> | <u>Wagering Tax</u> | <u>Other</u> | <u>Total</u> |
|-----------------------------------|------------------|------------------------------|-----------------------------|-------------------------|--------------|--------------|
| FY 1998 | 3,250.9 | 3,434.8 | 1,015.5 | N/A | 720.2 | 8,421.4 |
| FY 1999 | 3,396.0 | 3,699.3 | 1,044.4 | N/A | 743.5 | 8,883.2 |
| FY 2000 | 3,651.4 | 3,753.3 | 985.3 | N/A | 752.7 | 9,142.7 |
| FY 2001 | 3,686.8 | 3,779.8 | 855.3 | N/A | 730.1 | 9,052.0 |
| FY 2002 | 3,761.4 | 3,540.8 | 709.4 | N/A | 697.2 | 8,708.8 |
| Forecasted FY 2003 ⁽¹⁾ | 4,224.6 | 3,715.5 | 550.3 | 425.4 | 959.7 | 9,875.5 |
| Forecasted FY 2004 ⁽¹⁾ | 4,883.0 | 3,839.2 | 558.8 | 537.0 | 874.5 | 10,692.5 |
| Forecasted FY 2005 ⁽¹⁾ | 5,122.1 | 4,033.0 | 578.4 | 591.3 | 867.5 | 11,192.3 |
| <u>% Change from Prior Year</u> | | | | | | |
| FY 1999 | 4.5% | 7.7% | 2.8% | | 3.2% | 5.5% |
| FY 2000 | 7.5% | 1.5% | -5.7% | | 1.2% | 2.9% |
| FY 2001 | 1.0% | 0.7% | -13.2% | | -3.0% | -1.0% |
| FY 2002 | 2.0% | -6.3% | -17.1% | | -4.5% | -3.8% |
| Forecasted FY 2003 ⁽¹⁾ | 12.3% | 4.9% | -22.4% | N/A | 37.7% | 13.4% |
| Forecasted FY 2004 ⁽¹⁾ | 15.6% | 3.3% | 1.5% | 26.3% | -8.9% | 8.3% |
| Forecasted FY 2005 ⁽¹⁾ | 4.9% | 5.0% | 3.5% | 10.1% | -0.8% | 4.7% |

⁽¹⁾ The forecasted Operating Revenues are adjusted to reflect the tax increases enacted in 2002, which include a sales tax increase from 5% to 6% effective December 1, 2002; a cigarette tax increase from \$0.155 to \$0.555 effective July 1, 2002; and wagering tax increases, effective July 1, 2002. A portion of wagering tax revenues are deposited in the PTR Fund.

Source: State Budget Agency

Lottery and Gaming Revenues

By statute, certain revenues from the Hoosier Lottery, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, "Gaming Revenues") must be deposited in the Build Indiana Fund. In 2002, the General Assembly enacted annual distributions of wagering tax revenue to the BIF in the amount of \$250.0 million per year less the annual amounts distributed to the BIF from Hoosier Lottery profits, charitable gaming taxes and license fees and pari-mutuel wagering taxes. Any revenue in excess of \$250.0 million is to remain in the PTR Fund. For a description of wagering taxes, see "Major General Fund and PTR Fund Revenue Sources—Wagering Tax."

Before Hoosier Lottery profits are transferred to the Build Indiana Fund, \$60 million annually is used to fund local government pension liabilities. All lottery and gaming revenues deposited to BIF are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority (after pension account transfers) is to the State's counties for motor vehicle excise tax replacement, providing a substantial cut in the excise tax charged on motor vehicles—\$236.2 million for Fiscal Year 2003.

For Fiscal Year 2002, Gaming Revenues totaling \$472.4 million were collected by the State from the following sources:

| | |
|-------------------|-----------------|
| Hoosier Lottery | \$166.1 million |
| Riverboat gaming | 285.1 million |
| Horse racing | 3.4 million |
| Charity gaming | 4.0 million |
| Interest earnings | 13.7 million |

Source: State Budget Agency

Operating Expenditures

The legislature appropriated \$20,709.7 million of General Fund and PTR Fund revenues for Fiscal Years 2002 and 2003; this represents a 5.5% increase from the previous biennium. Actual expenditures may differ from appropriated levels as a result of a number of factors, including unforeseen expenses and executive and legislative action. The State's five largest expenditure categories include local school aid, higher education, property tax relief, Medicaid and Correction. These five categories constitute 83.8% of all appropriations for Fiscal Years 2002 and 2003. Table IV-2 sets forth operating expenditures, estimates and appropriations for all major expenditure categories for Fiscal Years 1998 through 2005.

Table IV-2
Expenditures and Appropriations
(Millions of Dollars)

| | <u>1998⁽¹⁾</u> | <u>1999⁽¹⁾</u> | <u>2000⁽¹⁾</u> | <u>2001⁽¹⁾</u> | <u>2002⁽¹⁾</u> | <u>2003⁽²⁾</u> | <u>2004⁽³⁾</u> | <u>2005⁽³⁾</u> |
|---------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Local School Aid | 3,423.1 | 3,691.8 | 3,894.0 | 4,172.8 | 3,889.5 | 4,230.3 | 4,253.6 | 4,302.5 |
| Higher Education | 1,180.5 | 1,248.0 | 1,331.5 | 1,331.3 | 1,294.7 | 1,400.3 | 1,474.4 | 1,527.7 |
| Property Tax Relief | 873.3 | 946.7 | 1,078.6 | 1,220.0 | 1,209.9 | 1,755.8 | 2,115.2 | 2,243.9 |
| Medicaid | 913.3 | 948.5 | 986.1 | 1,110.9 | 1,138.0 | 1,248.8 | 1,266.4 | 1,266.4 |
| Correction | 403.9 | 410.9 | 473.5 | 547.2 | 582.1 | 577.5 | 589.3 | 591.4 |
| Other | 1,504.3 | 1,802.4 | 1,829.8 | 1,635.5 | 1,592.9 | 1,590.6 | 1,581.9 | 1,573.9 |
| Total | 8,298.4 | 9,048.3 | 9,593.5 | 10,017.7 | 9,707.1 | 10,803.3 | 11,280.8 | 11,505.8 |

⁽¹⁾ Actual expenditures

⁽²⁾ Estimated expenditures

⁽³⁾ Appropriations made by 2003 General Assembly under HEA 2003-1001.

Source: State Budget Agency

Local School Aid. Funding for elementary and secondary education is the State's largest operating expense. Local school aid is payable from both the General Fund and PTR Fund and includes distributions for programs such as assessment and performance, as well as tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the State base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTR Fund. The General Assembly established the State's calendar year 1972 funding level as the base for local school aid.

Prior to January 1, 2003, the State provided approximately 66% of school corporations' general fund budgets. As a result of the tax restructuring legislation passed in 2002, the State will provide approximately 85% of the school corporations' general fund budgets. See "Operating Expenditures—Property Tax Relief."

Local school aid formula funding for tuition support on a school corporation-by-school corporation basis will increase by an average of 3.5% for Fiscal Year 2004 and 1.1% for Fiscal Year 2005 when compared to Fiscal Year 2003 appropriations, with each school corporation receiving a guaranteed minimum increase of 1.0% in tuition support. Combined local school aid expenditures for Fiscal Year 2002 from the Combined General and PTR Fund totaled \$3,889.5 million, a decrease of 6.8% from Fiscal Year 2001, and constituted 40.1% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making local school aid payments in Fiscal Year 2002. Combined local school aid appropriations for Fiscal Year 2003 from the Combined General and PTR Fund total \$4,241.3 million, an increase of 1.4% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$4,230.3 million. Local school aid appropriations for Fiscal Year 2004 from the Combined General and PTR Fund total \$4,253.6 million, an increase of 0.3% from Fiscal Year 2003 appropriations. Local school aid appropriations for Fiscal Year 2005 from the Combined General and PTR Fund total \$4,302.5 million, an increase of 1.1% from Fiscal Year 2004. See "Financial Results of Operations."

Higher Education. The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. The State supports seven higher education institutions, Ball State University, Indiana University, Indiana State University, Ivy Tech State College, Purdue University, University of Southern Indiana and Vincennes University. Expenditures for higher education for Fiscal Year 2002 totaled \$1,294.7 million, a decrease of 2.7% from Fiscal Year 2001, and constituted 13.3% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. The decrease resulted from a delay in making higher education aid payments in Fiscal Year 2002. Higher education appropriations for Fiscal Year 2003 total \$1,411.1 million, an increase of 0.01% when compared to Fiscal Year 2002; however, estimated expenditures for Fiscal Year 2003 are \$1,400.3 million, making higher education the third largest operating expenditure. Higher education appropriations for Fiscal Year 2004 total \$1,474.4 million, an increase of 4.5% from Fiscal Year 2003. Higher education appropriations for Fiscal Year 2005 total \$1,527.7 million, an increase of 3.6% from Fiscal Year 2004. Appropriations for higher education include money used to pay debt service and other amounts on qualified state university and college debt. See "Financial Results of Operations" and "STATE INDEBTEDNESS."

Property Tax Relief. The third largest operating expenditure, payable solely from the PTR Fund, is for local property tax relief. Spending for property tax relief primarily consists of the Property Tax Relief Credit ("PTR Credits"), which has traditionally reduced local property taxes by 14% to 15%, and the Homestead Credit, which reduces residential property taxes by 10%. Property tax relief expenditures for Fiscal Year 2002 totaled \$1,209.9 million, a decrease of 0.8% from Fiscal Year 2001, and constituted 12.5% of Combined General and PTR Fund expenditures for Fiscal Year 2002 for this category. Actual expenditures for property tax relief in Fiscal Year 2002 constituted 102.6% of appropriations. This increase in expenditures is a result of changes to the Property Tax Relief Credit, increasing the Homestead Credit to 20%, and increasing local school aid. Property tax relief appropriations for Fiscal Year 2003 totaled \$1,731.4 million, an increase of 46.8% from Fiscal Year 2002. Estimated expenditures for Fiscal Year 2003 are \$1,755.8 million, making property tax relief the second largest operating expenditure. Property tax relief appropriations for Fiscal Year 2004 total \$2,115.2 million, an increase of 22.2% from Fiscal Year 2003. Property tax relief appropriations for Fiscal Year 2005 total \$2,243.9 million, an increase of 6.1% from Fiscal Year 2004.

Legislation passed in 2002 replaces the PTR Credits with a 60% credit for school corporations' general fund tax levy on local property taxes through a State-paid Property Tax Replacement Credit as of January 1, 2003. This measure effectively increases the percentage of local school corporations' general fund budgets paid by the State from approximately 66% to approximately 85%. Additionally, the legislation increased the Homestead Credit from 10% to 20%, beginning in 2003. See "Operating Expenditures—Local School Aid."

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund, is the State's share of Medicaid assistance. State General Fund expenditures for Medicaid for Fiscal Year 2002 totaled \$1,138.0 million, an increase of 2.4% from Fiscal Year 2001, and constituted 11.7% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Medicaid in Fiscal Year 2002 constituted 97.2% of appropriations for the category. Medicaid appropriations for Fiscal Year 2003 from the General Fund total

\$1,248.8 million, an increase of 6.6% from Fiscal Year 2002. Estimated expenditures for Medicaid in Fiscal Year 2003 are \$1,248.8 million. Medicaid appropriations for each of Fiscal Year 2004 and Fiscal Year 2005 from the General Fund are \$1,266.4 million, an increase of 1.4% from Fiscal Year 2003.

In Fiscal Year 2002, 32.7% of Medicaid spending was funded from the General Fund. State dedicated funds and Federal funds constitute the balance of Medicaid spending. Nursing home care is the largest component of total Medicaid spending (State and Federal), about \$827.0 million for Fiscal Year 2002, an increase of 2.6% from Fiscal Year 2001. Prescription drug costs are the second largest, and fastest growing, component of total Medicaid spending, with costs of \$627.7 million in Fiscal Year 2002, an increase of 18.9% from Fiscal Year 2001. Hospital services is the third largest component of total Medicaid spending, about \$574.4 million for Fiscal Year 2002, a decrease of 0.2% from Fiscal Year 2001.

Medicaid enrollment is one of the most significant drivers of Medicaid costs. Medicaid enrollment steadily increased from 454,643 people in 1998 to 737,036 people in 2002, or by 62.1%.

Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. Appropriations for the Department of Correction include funds for incarceration, rehabilitation and parole programs. State General Fund expenditures for Correction for Fiscal Year 2002 totaled \$582.1 million, an increase of 6.4% from Fiscal Year 2001, and constituted 6.0% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Correction in Fiscal Year 2002 constituted 102.9% of appropriations for this category. This increase is a result of transferring the medical services fund from the State Family and Social Services Agency to the Department of Correction. Correction appropriations for Fiscal Year 2003 total \$569.0 million, an increase of 0.5% from Fiscal Year 2002. Estimated expenditures for Correction for Fiscal Year 2003 are \$577.5 million. Correction appropriations for Fiscal Year 2004 total \$589.3 million, an increase of 3.6% from Fiscal Year 2003. Correction appropriations for Fiscal Year 2005 total \$591.4 million, an increase of 0.4% from Fiscal Year 2004.

Population is one of the most significant drivers of Correction expenditures. Correctional population steadily increased from 19,720 in 1998 to 23,172 in 2002, or by 17.5%. Population is projected to increase 9.7% by the end of Fiscal Year 2005.

Other. The balance of State expenditures is composed of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, the State's administrative operations, the State share of public assistance payments, the General Fund share of State Police costs, economic development programs and General Fund expenditures for capital improvements. General Fund expenditures for all other expenditure categories for Fiscal Year 2002 totaled \$1,592.9 million, a decrease of 2.6% from Fiscal Year 2001, and constituted 16.4% of the Combined General and PTR Fund expenditures for Fiscal Year 2002. Actual expenditures for Other Categories in Fiscal Year 2002 constituted 93.7% of appropriations for the category. Other Categories appropriations for Fiscal Year 2003 from the General Fund total \$1,872.5 million, an increase of 10.2% from Fiscal Year 2002. Other Categories appropriations for Fiscal Year 2004 from the General Fund total \$1,581.9 million, a decrease of 15.5% from Fiscal Year 2003. Estimated expenditures for Fiscal Year 2003 are \$1,590.6 million. Other Categories appropriations for Fiscal Year 2005 from the General Fund total \$1,573.9 million, a decrease of 0.5% from Fiscal Year 2004.

Expenditure Limits. In 2002, the General Assembly enacted a law to establish that the maximum annual percentage change in State government expenditures be based on the percentage change in Indiana non-farm personal income during the past six calendar years. The law excludes expenditures from revenue derived from gifts, federal funds, dedicated funds, intergovernmental transfers, damage awards and property sales. Expenditures from the transfer of funds between the General Fund, the PTR Fund and the Rainy Day Fund, reserve fund deposits, refunds of intergovernmental transfers, state capital projects, judgments and settlements, distributions of specified State tax revenues to local governments, and Motor Vehicle Excise Tax replacement payments are also exempt from the expenditure limit. The expenditure limit is applied to appropriations from the General Fund, the PTR Fund and the Rainy Day Fund.

The law directs the Budget Agency to compute a new State spending growth quotient before December 31 in each even-numbered year. The State spending growth quotient is equal to the lesser of the six-year average

increase in Indiana non-farm personal income and six percent. The legislation allows the state spending cap to be increased or decreased to account for new or reduced taxes, fees, exemptions, deductions or credits adopted after June 30, 2002. The spending cap limits expenditure increases to 3.5% per annum for each of Fiscal Year 2004 and Fiscal Year 2005.

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, the Tuition Reserve, the Combined General and PTR Fund and the Medicaid Reserve and Contingency Account. Each of these funds is described below.

Rainy Day Fund. In 1982, the General Assembly established the Counter-Cyclical Revenue and Economic Stabilization Fund, commonly called the “Rainy Day Fund.” One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is essentially a State savings account that permits the State to build up a fund balance during periods of economic expansion for use during periods of economic recession.

Each year the State Budget Director determines calendar year Adjusted Personal Income (“API”) for the State and its growth rate over the previous year. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0% and moneys are withdrawn automatically from the Rainy Day Fund if API declines by more than 2.0%. No automatic withdrawal from the Rainy Day Fund has occurred; however, the General Assembly has authorized money to be transferred from the Rainy Day Fund to the General Fund from time to time during periods of economic recession. In addition, the General Assembly has authorized money in the Rainy Day Fund to be used to make loans to local governments from time to time. *See* “Financial Results of Operations.”

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to maintain a positive balance in the General Fund for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Money in the Rainy Day Fund at the end of a Fiscal Year does not revert to the General Fund. If the balance in the Rainy Day Fund at the end of a Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund to the PTR Fund. *See* Table IV-3 for Rainy Day Fund balances and other information about this Fund.

Tuition Reserve. The Tuition Reserve is essentially a cash flow device that is intended to assure that the State has sufficient cash to make local school aid payments on time. Prior to each June 1, the Budget Agency estimates and establishes the Tuition Reserve for the ensuing Fiscal Year. *See* Table IV-3 for Tuition Reserve Fund balances.

Medicaid Reserve. In 1995, the General Assembly established the Medicaid Reserve and Contingency Account to provide a reserve to fund timely payments of Medicaid claims, obligations and liabilities. The Medicaid Reserve was designed to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of a Fiscal Year. The Medicaid Reserve is currently unfunded; in 2001, the General Assembly authorized the money in the Medicaid Reserve to be used to fund Medicaid obligations during Fiscal Years 2002 and 2003. *See* Table IV-3 for Medicaid Reserve Fund balances.

Combined General and PTR Fund. The PTR Fund was created by statute in Fiscal Year 1973. It is funded from revenues from the State sales and use tax, a portion of individual income tax receipts and wagering taxes. The PTR Fund is used (1) to replace local property tax levies (“PTR Credits”), which were reduced through PTR Credits under the same statute that created the PTR Fund; and, (2) for local school aid. To the extent that the PTR Fund does not have sufficient revenues to make authorized payments, General Fund transfers must be made to the PTR Fund.

The General Fund and the PTR Fund are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. As previously stated, it is helpful to combine the receipts and disbursements of the PTR Fund with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. As a result, the General Fund and the PTR Fund are sometimes discussed in this statement as a single, combined fund.

Financial Results of Operations

Fiscal Years 2002 and 2003. *Introduction.* The General Assembly passed a State budget for Fiscal Years 2002 and 2003 that called for Combined General and PTR Fund spending of \$10,211.9 million in Fiscal Year 2002 (an increase of 1.6% from FY 2001), and \$10,497.8 million in Fiscal Year 2003 (an increase of 2.8% from FY 2002). In passing the biennial budget, the General Assembly authorized \$666.4 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2002 and \$510.9 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2003. As a result, the General Assembly anticipated spending a total of \$1,177.3 million more than forecasted Operating Revenue during the current budget biennium. (Forecasted Operating Revenues do not include dedicated funds and accounts available to be appropriated, and in some cases actually appropriated, by the General Assembly for budget purposes.)

As the national economic recession took hold, forecasted State Operating Revenues were hard hit. The recession erased approximately \$1,640.0 million of forecasted Operating Revenues during Fiscal Years 2002 and 2003, further exacerbating the budget deficit.

Fiscal Year 2002. To address the revenue shortfall and reduce the budget deficit in Fiscal Year 2002, the State administration used general statutory authority and measures specifically authorized in the biennial budget, including transfers from the following funds and accounts to the General Fund:

| | |
|---------------------------------------|-----------------|
| Lottery and Gaming Surplus Account: | \$200.0 million |
| Rainy Day Fund | 277.1 million |
| Medicaid Reserve and Contingency Fund | 100.0 million |

In addition, the Finance Board authorized transfers from a number of dedicated funds and accounts to the General Fund and the PTR Fund:

| | |
|--|-----------------|
| Build Indiana Fund | \$247.5 million |
| Veterans Memorial School Construction Fund | 37.0 million |
| State Highway Fund | 30.0 million |
| Other | 127.0 million |

(All but \$45.2 million of the \$441.5 million of Finance Board-authorized transfers were used in Fiscal Year 2002.)

The State also delayed making \$373.8 million of local school aid and higher education payments in Fiscal Year 2002.

In addition to the transfers and payment delays, the State Administration required agencies to cut their operating budgets by 7% and implemented hiring and salary freezes, resulting in \$145.1 million of reduced spending in Fiscal Year 2002 (excluding reductions in forecasted Medicaid spending).

At the end of Fiscal Year 2002, the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) was \$534.2 million or 6.1% of Operating Revenue (that is, tax revenues, certain fees and DSH revenue deposited in the General Fund or the PTR Fund). *See* Table IV-3 for actual Fiscal Year 2002 results, including actual State Operating Revenues, transfers and fund balances.

Fiscal Year 2003. Near the end of Fiscal Year 2002, the General Assembly met in a special session called by Governor O'Bannon and passed HEA 2002-1001 (ss), which included an estimated \$559.7 million in budget relief as well as tax restructuring. Higher sales and use taxes and increased taxes on gambling and tobacco products were designed to address the revenue shortfall, reduce the budget deficit and offset some of the cost of the tax restructuring. Streamlined corporate income taxes and the phase out of personal property taxation of business inventories were designed to encourage business investment. Additional property tax relief for homeowners was expected to reduce the potentially negative effects of the state-wide property tax reassessment which is currently underway. (Tax restructuring will increase future Combined General and PTR Fund expenditures, especially for property tax relief.)

In spite of forecasted increases in State Operating Revenue resulting from the enactment of HEA 2002-1001 (ss), the Fiscal Year 2003 budget continues to be out of balance. The soft economy, threat of war and worse than normal winter weather resulted in lower than forecasted sales tax revenues. The State Administration is again using general statutory authority and measures specifically authorized in the biennial budget to reduce the budget deficit, including fund and account transfers, payment delays (another \$328.4 million in Fiscal Year 2003) and spending cuts. The Budget Agency is working to achieve Fiscal Year 2003 reversions totaling \$421.5 million through reduced spending by State agencies (including holding Medicaid spending to below forecast), and elimination of unspent capital and operating accounts. By the end of Fiscal Year 2003, the State Administration expects to have reduced forecasted Medicaid spending by \$250.0 million.

At the end of Fiscal Year 2003, the Budget Agency estimates that the State's Total Combined Balance (General Fund, Rainy Day Fund, Tuition Reserve and Medicaid Reserve and Contingency Fund balances) will be \$510.4 million or 5.1% of Operating Revenue (that is, tax revenues, certain fees and DSH revenue deposited in the General Fund or the PTR Fund).

See Table IV-3 for estimated Fiscal Year 2003 results, including State Operating Revenues, transfers, reversions and fund balances.

Fiscal Years 2004 and 2005. The General Assembly passed a State budget for Fiscal Years 2004 and 2005 that calls for Combined General and PTR Fund spending of \$11,280.6 million in Fiscal Year 2004 (an increase of 1.9% from Fiscal Year 2003) and \$11,505.7 million in Fiscal Year 2005 (an increase of 2.0% from Fiscal Year 2004). In passing the biennial budget, the General Assembly authorized \$810.8 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2004 and \$645.5 million more spending than forecasted Operating Revenues would permit in Fiscal Year 2005. As a result, the General Assembly anticipates spending a total of \$1,456.3 million more than forecasted Operating Revenue during the forthcoming budget biennium. (Forecasted Operating Revenues do not include dedicated funds and accounts available to be appropriated, and in some cases actually appropriated, by the General Assembly for budget purposes.)

The biennial budget was based on forecasted Fiscal Year 2004 revenue of \$10,692.5 million (an increase of 8.3% from final forecasted Fiscal Year 2003 revenue) and forecasted Fiscal Year 2005 revenue of \$11,192.3 million (an increase of 4.7% from forecasted Fiscal Year 2004 revenue). The forecasted revenue increase for Fiscal Year 2004 primarily reflects the implementation of the Fiscal Year 2002 tax increases and expected improvements in the national economy, while the revenue increase for Fiscal Year 2005 primarily reflects expected improvements in the national economy.

To balance the budget, the General Assembly authorized the transfer of dedicated funds to the General Fund or the PTR Fund, including:

| | |
|-------------------------------|-----------------|
| Rainy Day Fund | \$220.0 million |
| Pension Stabilization Fund | 380.0 million |
| Public Deposit Insurance Fund | 50.0 million |
| Other Dedicated Funds | 57.0 million |

In addition, the General Assembly specifically authorized the Budget Agency, with the approval of the Governor and after Budget Committee review, (a) "to withhold allotments of any or all appropriations . . . , if it is considered necessary . . . to prevent a deficit financial situation"; and (b) transfer from the Rainy Day Fund to the

General Fund “an amount necessary to maintain a positive balance” in the General Fund. Rainy Day Fund balances may not be sufficient to provide further budget relief.

Funding the State share of Medicaid assistance and Department of Correction needs are two of the challenges the State Administration will confront in managing the budget for Fiscal Years 2004 and 2005. The General Assembly effectively maintained Medicaid appropriations for Fiscal Years 2004 and 2005 at Fiscal Year 2003 levels and limited growth in Correction appropriations for the budget biennium. The budget for Medicaid was established despite a State forecast that (1) estimated additional expenditures of \$60.3 million in Fiscal Year 2004 and \$157.9 million in Fiscal Year 2005, and (2) assumed that the State Administration would realize \$355.0 million of Medicaid spending reductions during the budget biennium. The Medicaid budget for Fiscal Years 2004 and 2005 means that the State will need to realize an additional \$218.2 million of Medicaid spending reductions during Fiscal Years 2004 and 2005 to avoid overspending the appropriations.

Department of Correction appropriations increase modestly in Fiscal Years 2004 and 2005; however, the State Administration is concerned that the Correction budget is inadequate to meet the demands of a growing prisoner population, including the operation of new correctional facilities. *See* “Operating Expenditures—Correction.”

At the end of Fiscal Year 2004, the Budget Agency estimates that the State’s Total Combined Balance will be \$295.8 million or 2.7% of Operating Revenues. At the end of Fiscal Year 2005, the Budget Agency estimates that the State’s Total Combined Balance will be \$324.8 million or 2.9% of Operating Reserves. *See* Table IV-3 for estimated Fiscal Year 2004 and Fiscal Year 2005 results, including estimated State Operating Reserves, transfers and fund balances.

Table IV-3 sets forth the Budget Agency’s unaudited end-of year combined balance statements and estimates and projections, including revenues and other resources, expenditures and balances at the end of each Fiscal Year. For past Fiscal Years, the balances reflect actual revenue and other resources and expenses before adjustments to the modified accrual basis of accounting. As a result, the Budget Agency’s “working” statements may differ from the results included in the 2002 Financial Report and the Auditor of State’s other year-end comprehensive annual financial reports. Forecasted revenues were developed by the Technical Forecast Committee, and actual revenues may be higher or lower than those forecasted. Estimates of other resources and uses were developed by the Budget Agency taking into account historical resources and appropriations as well as other variables, including the budget for Fiscal Years 2004 and 2005.

The Budget Agency is evaluating the fiscal impact on the State of the Federal financial aid to the states recently authorized by the United States Congress and President Bush.

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Table IV-3
General Fund and Property Tax Replacement Fund
Combined Statement of New Actual and Estimated Unappropriated Reserve
(Millions of Dollars)

| | Actual FY2001 | Actual FY2002 | (1) Estimated FY2003 | (1) Estimated FY2004 | (1) Estimated FY2005 |
|---|------------------|------------------|----------------------------|----------------------------|----------------------------|
| Resources | | | | | |
| Working Balance at July 1 | 832.6 | 18.6 | 0.0 | 0.9 | 0.2 |
| Current Year Resources | | | | | |
| Forecast Revenue | 9,052.0 | 8,708.9 | 9,875.5 | 10,692.5 | 11,192.3 |
| DSH | 70.9 | 87.0 | 66.3 | 66.3 | 66.3 |
| HEA 1001-2003 ⁽¹⁾ | - | - | (26.0) | 176.0 | 68.1 |
| Other Revenue Sources of Transfers In | | | | | |
| Transfer from Lottery & Gaming Surplus Acct. (BIF) | - | 200.0 | 175.0 | - | - |
| Transfer from Medicaid Reserve to General Fund | 103.4 | 100.0 | - | - | - |
| Transfer from Dedicated Fund Balances | - | 396.3 | 206.0 | 107.0 | 29.9 |
| Transfer From (To) Rainy Day Fund | 46.3 | 277.1 | 30.0 | 220.0 | - |
| Total Current Year Resources | 9,272.6 | 9,769.3 | 10,326.8 | 11,261.8 | 11,356.6 |
| Total Resources | 10,105.2 | 9,787.9 | 10,326.8 | 11,262.7 | 11,356.8 |
| Uses: Appropriations, Expenditures and Reversions | | | | | |
| Appropriations | | | | | |
| Budgeted Appropriations | 10,159.3 | 10,211.9 | 11,013.8 | 11,280.6 | 11,505.7 |
| Adjustments to Appropriations ⁽²⁾ | (15.7) | 93.1 | 135.0 | - | - |
| Deficiency Appropriations | 66.8 | 0.1 | 19.4 | - | - |
| Appropriations Transfer (FY 2000 capital appropriations) | (88.3) | - | - | - | - |
| Medicaid Shortfall | 58.5 | - | - | - | - |
| K-12 Education, HEA 1196 – 2002 | - | - | (148.1) | - | - |
| Total Appropriations | 10,180.6 | 10,305.1 | 11,020.1 | 11,280.6 | 11,505.7 |
| Other Expenditures and Transfers | | | | | |
| Judgments and Settlements ⁽³⁾ | 7.0 | 3.8 | 55.7 | 8.0 | 8.0 |
| Total Appropriations and Expenditures | 10,187.6 | 10,308.9 | 11,075.8 | 11,288.6 | 11,513.7 |
| Payment Delays | | | | | |
| Higher Education Allotment | - | (94.2) | (2.9) | - | - |
| Tuition Support Distribution | - | (279.5) | (11.0) | - | - |
| Property Tax Replacement Credit | - | - | (314.5) | - | - |
| Reversions | (102.9) | (145.1) | (421.5) | (26.0) | (185.4) |
| Total Net Uses | 10,084.7 | 9,790.1 | 10,325.9 | 11,262.6 | 11,328.3 |
| Auditor's Adjustment | 1.9 | (2.2) | - | - | - |
| General Fund Reserve Balance at June 30 | 18.6 | 0.0 | 0.9 | 0.2 | 28.4 |
| Reserved Balances | | | | | |
| Medicaid Reserve | 100.0 | - | - | - | - |
| Tuition Reserve | 265.0 | 265.0 | 265.0 | 265.0 | 265.0 |
| Rainy Day Fund ⁽⁴⁾ | 526.0 | 269.2 | 244.5 | 30.6 | 31.4 |
| Total Combined Balances | 909.6 | 534.2 | 510.4 | 295.8 | 324.8 |
| Payment Delay Liability | - | (373.8) | (702.1) | (702.1) | (702.1) |
| Combined Balance as a Percent of Operating Revenue | 10.0% | 6.1% | 5.1% | 2.7% | 2.9% |

Totals may not add as a result of rounding.

¹ Forecasted revenue is based on information provided by the Technical Forecast Committee, while other resources and uses are estimated by the Budget Agency. The resources identified in the HEA 1001-2003 line result from actions authorized by the General Assembly pursuant to HEA 1001-2003, the State budget for Fiscal Years 2004 and 2005. See "Financial Results of Operations."

² Adjustments to appropriations by augmentation, transfer and open-ended appropriations and other reconciling adjustments made as part of the end-of-Fiscal Year closing process are shown in total. FY 2003 includes an additional appropriation of \$135.0 million for motor vehicle excise tax obligations not met by the Lottery and Gaming Surplus Account.

³ Represents the estimated cost to the State of judgments and other legal and equitable claims, as well as the Budget Agency's best current estimate of the cost of Medicaid expenditures that will be incurred by the State, and paid from the General Fund, in FY 2003

as a result of the Indiana Supreme Court decision in *Humphreys v. Day*. No reserve fund is established for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from appropriations or balances. *See* “LITIGATION.”

⁴

Includes \$31.0 million of loans to local governments authorized by the General Assembly. Such loans are illiquid.

Source: State Budget Agency

V. STATE INDEBTEDNESS

Constitutional Limitations on State Debt

Under Article X, Section 5 of the State constitution, the State may not incur indebtedness except to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. *See* “FISCAL POLICIES—State Board of Finance.”

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, however, together with State university and college debt and what are described below as “contingent obligations.” In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations are subject to a number of conditions that cannot be predicted at present. *See* “STATE INDEBTEDNESS—Authorized but Unissued Debt.”

Obligations Payable from Possible State Appropriations

The General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority and the Recreational Development Commission, which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and other obligations to finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Department of Administration, the Department of Transportation, the Department of Natural Resources and the Indianapolis Airport Authority (under an agreement with the Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriations of State funds by the General Assembly. However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and other obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission (the “Building Commission”) is authorized pursuant to Indiana Code 4-13.5 to issue revenue bonds to finance or refinance the cost of acquiring, constructing and equipping of buildings, structures, improvements or parking areas owned or leased by the Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure or improvement for the care, maintenance or treatment of persons with mental or addictive disorders; (e) providing regional health facilities; (f) providing communications system infrastructure; and (g) providing laboratory facilities.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the Building Commission has issued revenue bonds to finance or refinance various projects. For a list of the

indebtedness of the Building Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

The Building Commission also provides short-term, or construction, financing for authorized projects through issuance and sale of “Hoosier Notes.” Hoosier Notes are payable from revenue bonds issued by the Building Commission.

Transportation Finance Authority—Highway Financing. The Indiana Transportation Finance Authority (the “TFA”) was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to (a) undertake projects to construct, acquire, reconstruct, improve and extend the State’s highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State’s highways, bridges, streets and roads throughout Indiana. For a list of the indebtedness of the TFA for Highway Financing, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

Transportation Finance Authority—Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines “aviation related property or facilities” as those properties or facilities that are utilized by a lessee, or a lessee’s assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA has issued revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the “Airport Facilities”). For a list of the indebtedness of the TFA for Airport Facilities, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Aviation Technology Center. In addition, the TFA issued revenue bonds to finance the costs of constructing and equipping an aviation technology center (the “Aviation Technology Center”) at Indianapolis International Airport. For a list of the indebtedness of the TFA for the Aviation Technology Center, *see* “Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations.”

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing.”

Recreational Development Commission. The Indiana Recreational Development Commission (the “Recreation Commission”) was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State’s Department of Natural Resources (the “DNR”) may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission has issued its revenue bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the “Park Projects”). For a list of the indebtedness of the Recreation Commission, *see* “Table V-1—Schedule of Long Term Debt Obligations Payable from Possible State Appropriations.”

Indiana Bond Bank. A series of bonds issued by the Indiana Bond Bank are also payable from possible State appropriations, the Series 1998B Refunding Bonds issued to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 B Bonds to finance construction of the State's Animal Disease and Diagnostic Laboratory ("ADDL") at Purdue University, West Lafayette. *See* "Table V-1—Schedule of Long Term Debt—Obligations Payable from Possible State Appropriations."

For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, *see* "Contingent Obligations—Indiana Bond Bank" and Table V-5.

Debt Statement—Obligations Payable from Possible State Appropriations

Table V-1 lists, by issuing agency, long-term debt that is subject to possible State appropriations as of June 30, 2002.

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Table V-1
Schedule of Long Term Debt
Obligations Payable from Possible State Appropriations
(as of June 30, 2002)

| Issuer/Series | Original Par Amount | Ending Balance 6/30/01 | (Redeemed)/ Issued | Ending Balance 6/30/02 |
|---|-------------------------|------------------------------|------------------------|------------------------------|
| Building Commission | | | | |
| Government Center Parking Facilities | | | | |
| Series 1990A | \$ 26,669,824 | \$ 10,475,690 | \$ (671,076) | \$ 9,804,613 |
| Series 1993A | 42,410,000 | 33,335,000 | (2,050,000) | 31,285,000 |
| Subtotal | \$ 69,079,824 | \$ 43,810,690 | \$ (2,721,076) | \$ 41,089,613 |
| Government Center North | | | | |
| Series 1990B | \$ 77,123,542 | \$ 32,492,747 | \$ (2,081,244) | \$ 30,411,503 |
| Series 1993B | 107,555,000 | 89,230,000 | (4,145,000) | 85,085,000 |
| Subtotal | \$ 184,678,542 | \$ 121,722,747 | \$ (6,226,244) | \$ 115,496,503 |
| Government Center South | | | | |
| Series 1990C | \$ 18,063,800 | \$ 7,089,520 | \$ (453,430) | \$ 6,636,090 |
| Series 1990D | 110,675,000 | 53,710,000 | - | 53,710,000 |
| Series 1993C | 28,440,000 | 9,095,000 | (420,000) | 8,675,000 |
| Series 2000B | 43,400,000 | 43,400,000 | (700,000) | 42,700,000 |
| Subtotal | \$ 200,578,800 | \$ 113,294,520 | \$ (1,573,430) | \$ 111,721,090 |
| Correctional Facilities | | | | |
| Series 1995A | \$ 54,025,000 | \$ 52,790,000 | \$ (455,000) | \$ 52,335,000 |
| Series 1995B | 47,975,000 | 45,475,000 | (1,330,000) | 44,145,000 |
| Series 1998A | 93,020,000 | 93,020,000 | (2,450,000) | 90,570,000 |
| Series 1999A | 96,785,000 | 94,020,000 | (3,110,000) | 90,910,000 |
| Series 2000A | 44,800,000 | 44,800,000 | (1,600,000) | 43,200,000 |
| Series 2001A | 66,600,000 | 66,600,000 | - | 66,600,000 |
| Series 2002A | 128,110,000 | - | 128,110,000 | 128,110,000 |
| Subtotal | \$ 531,315,000 | \$ 396,705,000 | \$ 119,165,000 | \$ 515,870,000 |
| TOTAL SOBC | \$ 985,652,166 | \$ 675,532,957 | \$ 108,644,250 | \$ 784,177,206 |
| Transportation Finance Authority | | | | |
| Highway Revenue Bonds | | | | |
| Series 1990A | \$ 72,498,391 | \$ 36,107,632 | \$ (1,764,015) | \$ 34,343,617 |
| Series 1992A | 74,035,000 | 35,285,000 | - | 35,285,000 |
| Series 1993A | 193,531,298 | 146,116,298 | (6,935,000) | 139,181,298 |
| Series 1996B | 27,110,000 | 26,200,000 | (250,000) | 25,950,000 |
| Series 1998A | 175,360,000 | 175,360,000 | (3,110,000) | 172,250,000 |
| Series 2000A | 269,535,000 | 269,535,000 | - | 269,535,000 |
| Subtotal | \$ 812,069,689 | \$ 688,603,930 | \$ (12,059,015) | \$ 676,544,915 |
| Airport Facilities Bonds | | | | |
| Series 1992A | \$ 201,320,000 | \$ 52,040,000 | \$ (5,640,000) | \$ 46,400,000 |
| Series 1995A | 29,720,000 | 27,585,000 | (880,000) | 26,705,000 |
| Series 1996A | 137,790,000 | 137,790,000 | (745,000) | 137,045,000 |
| Subtotal | \$ 368,830,000 | \$ 217,415,000 | \$ (7,265,000) | \$ 210,150,000 |
| Aviation Technology Bonds | | | | |
| Series 1992A | \$ 11,630,000 | \$ 9,700,000 | \$ (9,700,000) | \$ - |
| Series 2002A | 10,095,000 | - | 10,095,000 | 10,095,000 |
| Subtotal | \$ 21,725,000 | \$ 9,700,000 | \$ 395,000 | \$ 10,095,000 |
| TOTAL TFA | \$ 1,202,624,689 | \$ 915,718,930 | \$ (18,929,015) | \$ 896,789,915 |
| Recreation Commission | | | | |
| Series 1994 | \$ 19,285,000 | \$ 18,575,000 | \$ (275,000) | \$ 18,300,000 |
| Series 1997 | 6,600,000 | 5,995,000 | (215,000) | 5,780,000 |
| Subtotal | \$ 25,885,000 | \$ 24,570,000 | \$ (490,000) | \$ 24,080,000 |
| TOTAL RDC | \$ 25,885,000 | \$ 24,570,000 | \$ (490,000) | \$ 24,080,000 |
| ADDL, Series 1998B | \$ 10,830,000 | \$ 8,645,000 | \$ (665,000) | \$ 7,980,000 |
| TOTAL ADDL | \$ 10,830,000 | \$ 8,645,000 | \$ (665,000) | \$ 7,980,000 |
| TOTAL ALL BONDS | \$ 2,224,991,855 | \$ 1,624,466,887 | \$ 88,580,235 | \$ 1,713,027,121 |

Source: State Budget Agency

Debt Service Schedule—Obligations Payable from Possible State Appropriations

Table V-2 lists principal and interest payments payable from possible State appropriations (not including debt that has been defeased).

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Table V-2
Scheduled Principal and Interest Payments
Payable from Possible State Appropriations

| Issuer/Series | FY 2003 | FY 2004 | FY 2005 | FY 2006 | Thereafter |
|--------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-------------------------|
| Building Commission | | | | | |
| Government Center Parking | | | | | |
| Series 1990A | \$ 1,948,050 | \$ 1,948,050 | \$ 1,948,050 | \$ 1,948,050 | \$ 14,765,625 |
| Series 1993A | 3,689,389 | 3,689,981 | 3,683,284 | 3,678,836 | 26,823,347 |
| Subtotal | \$ 5,637,439 | \$ 5,638,031 | \$ 5,631,334 | \$ 5,626,886 | \$ 41,588,972 |
| Government Center North | | | | | |
| Series 1990B | \$ 6,041,880 | \$ 6,041,880 | \$ 6,041,880 | \$ 6,041,880 | \$ 45,799,800 |
| Series 1993B | 8,603,809 | 8,597,976 | 8,592,396 | 8,581,026 | 85,340,884 |
| Subtotal | \$ 14,645,689 | \$ 14,639,856 | \$ 14,634,276 | \$ 14,622,886 | \$ 131,140,684 |
| Government Center South | | | | | |
| Series 1990C | \$ 1,317,090 | \$ 1,317,090 | \$ 1,317,090 | \$ 1,317,090 | \$ 9,995,065 |
| Series 1990D | 3,705,990 | 3,705,990 | 3,705,990 | 3,705,990 | 65,546,605 |
| Series 1993C | 875,280 | 878,780 | 875,738 | 876,105 | 8,699,688 |
| Series 2000B ⁽¹⁾ | 8,799,000 | 8,686,500 | 8,461,500 | 8,319,000 | 19,849,500 |
| Subtotal | \$ 14,697,360 | \$ 14,588,360 | \$ 14,360,318 | \$ 14,218,185 | \$ 104,090,858 |
| Correctional Facilities | | | | | |
| Series 1995A | \$ 3,320,028 | \$ 3,321,861 | \$ 3,322,248 | \$ 3,321,149 | \$ 83,265,715 |
| Series 1995B | 3,858,843 | 3,853,508 | 3,853,695 | 3,849,435 | 57,231,528 |
| Series 1998A | 8,574,151 | 8,572,990 | 8,560,298 | 8,554,491 | 93,591,571 |
| Series 1999A | 7,870,431 | 7,869,119 | 7,857,575 | 7,853,675 | 109,144,269 |
| Series 2000A ⁽¹⁾ | 4,104,000 | 4,102,500 | 4,000,500 | 3,993,000 | 53,292,000 |
| Series 2001A ⁽¹⁾ | 3,996,000 | 5,697,000 | 5,683,500 | 5,664,000 | 95,500,500 |
| Series 2002A | 6,427,101 | 8,052,351 | 8,408,969 | 8,400,936 | 184,282,084 |
| Subtotal | \$ 38,150,554 | \$ 41,469,329 | \$ 41,686,785 | \$ 41,636,686 | \$ 676,307,667 |
| TOTAL SOBC | \$ 73,131,042 | \$ 76,335,576 | \$ 76,312,713 | \$ 76,104,663 | \$ 953,128,181 |
| TFA | | | | | |
| Highway Revenue Bonds | | | | | |
| Series 1990A | \$ 6,150,288 | \$ 6,150,288 | \$ 6,150,288 | \$ 4,255,288 | \$ 45,945,488 |
| Series 1992A | 2,399,380 | 2,399,380 | 2,399,380 | 2,399,380 | 53,910,370 |
| Series 1993A | 13,853,698 | 13,848,263 | 13,858,773 | 12,608,425 | 190,384,262 |
| Series 1996B | 3,989,010 | 3,989,708 | 3,981,450 | 3,961,450 | 15,784,925 |
| Series 1998A | 12,098,890 | 12,108,846 | 12,088,328 | 18,669,828 | 214,203,386 |
| Series 2000A | 17,210,301 | 17,097,176 | 16,982,801 | 14,425,301 | 492,556,782 |
| Subtotal | \$ 55,701,567 | \$ 55,593,661 | \$ 55,461,020 | \$ 56,319,671 | \$ 1,012,785,213 |
| Airport Facilities Bonds | | | | | |
| Series 1992A | \$ 9,064,853 | \$ 9,385,525 | \$ 9,704,613 | \$ 10,040,600 | \$ 26,185,312 |
| Series 1995A | 2,420,893 | 2,469,868 | 2,512,723 | 2,558,595 | 30,514,282 |
| Series 1996A | 8,216,608 | 8,219,933 | 8,220,583 | 8,218,060 | 173,188,550 |
| Subtotal | \$ 19,702,354 | \$ 20,075,326 | \$ 20,437,919 | \$ 20,817,655 | \$ 229,888,145 |
| Aviation Technology Bonds | | | | | |
| Series 2002A | \$ 420,565 | \$ 685,565 | \$ 955,765 | \$ 955,495 | \$ 11,444,530 |
| Subtotal | \$ 420,565 | \$ 685,565 | \$ 955,765 | \$ 955,495 | \$ 11,444,530 |
| TOTAL TFA | \$ 75,824,484 | \$ 76,354,550 | \$ 76,854,701 | \$ 78,092,821 | \$ 1,254,117,888 |
| Recreation Commission | | | | | |
| Series 1994 | \$ 1,419,395 | \$ 1,460,203 | \$ 1,492,435 | \$ 1,531,172 | \$ 25,194,154 |
| Series 1997 | 526,030 | 525,333 | 523,869 | 521,616 | 6,741,750 |
| Subtotal | \$ 1,945,425 | \$ 1,985,536 | \$ 2,016,304 | \$ 2,052,789 | \$ 31,935,904 |
| TOTAL RDC | \$ 1,945,425 | \$ 1,985,536 | \$ 2,016,304 | \$ 2,052,789 | \$ 31,935,904 |
| ADDL, Series 1998B | \$ 1,042,894 | \$ 1,043,475 | \$ 1,042,434 | \$ 1,044,740 | \$ 5,734,930 |
| TOTAL ADDL | \$ 1,042,894 | \$ 1,043,475 | \$ 1,042,434 | \$ 1,044,740 | \$ 5,734,930 |
| TOTAL ALL BONDS | \$ 151,943,845 | \$ 155,719,137 | \$ 156,226,152 | \$ 157,295,013 | \$ 2,244,925,903 |

⁽¹⁾ Debt service on variable rate debt is determined by assuming an interest rate cap of 6%.

Source: State Budget Agency

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. The ratios of outstanding debt subject to possible State appropriation to population and personal income for the past nine years are reflected in Table V-3. The ratios do not reflect any state university or college indebtedness or contingent obligations.

Table V-3
Ratios of Outstanding Debt Subject to Possible Appropriation
to Population and Personal Income

| <u>Fiscal</u> <u>Year</u> | <u>Population</u> | <u>Personal</u> <u>Income</u> ⁽¹⁾ | <u>Outstanding Debt</u> <u>Subject to Appropriation</u> | <u>Debt/Capita</u> ⁽²⁾ | <u>Debt/Income</u> ⁽³⁾ |
|------------------------------|-------------------|---|--|-----------------------------------|-----------------------------------|
| 1993 | 5,739,019 | \$ 114,675 | \$ 1,001,051,854 | \$ 174 | 0.9% |
| 1994 | 5,793,526 | 121,537 | 1,030,787,646 | 178 | 0.8 |
| 1995 | 5,851,459 | 126,525 | 1,036,962,646 | 177 | 0.8 |
| 1996 | 5,906,013 | 132,890 | 1,119,537,646 | 190 | 0.8 |
| 1997 | 5,955,267 | 139,459 | 1,116,717,640 | 188 | 0.8 |
| 1998 | 5,998,880 | 149,318 | 1,240,092,643 | 207 | 0.8 |
| 1999 | 6,044,969 | 154,405 | 1,228,372,647 | 203 | 0.8 |
| 2000 | 6,080,485 | 164,543 | 1,569,341,152 | 258 | 1.0 |
| 2001 | 6,126,743 | 168,622 | 1,624,466,887 | 265 | 1.0 |
| 2002 | 6,159,068 | 173,932 | 1,713,027,121 | 278 | 1.0 |

(1) Personal Income is expressed in millions of dollars.

(2) According to Moody's 2002 State Debt Medians, the median debt per capita for all states was about \$573

(3) According to Moody's 2002 State Debt Medians, the median percentage for all states was about 2.3%

Source: United States Bureau of Census for population, United States Department of Commerce, Bureau of Economic Analysis for personal income, and State Budget Agency for outstanding debt.

Authorized but Unissued Debt

The 1999 General Assembly authorized the Building Commission to issue additional bonds to finance construction of a mental health facility in Evansville. The Building Commission is in the process of constructing the Evansville facility and anticipates completion in the second quarter of 2003. Total construction costs are not expected to exceed \$30 million.

The 2001 and 2003 General Assemblies authorized the Building Commission to issue bonds to finance four regional health centers. The Building Commission is planning and designing the centers. Construction of the new Logansport center is under way. The total construction cost for each center is expected to be between \$35 million and \$55 million.

The 2002 General Assembly authorized the Building Commission to issue bonds to finance the construction of a public safety communications network. The Commission expects to build out the network in four phases; the first phase is expected to cost no more than \$30 million and be completed by the end of the first quarter of 2004. The General Assembly dedicated certain State Bureau of Motor Vehicles fees to pay lease rentals for the network.

The 2003 General Assembly authorized the Building Commission to issue the bonds to finance the construction of laboratory facilities for the State Police, Department of Health and the Department of Toxicology. The Building Commission is planning and designing the laboratories, but has not established a time line for construction. The General Assembly dedicated certain State Bureau of Motor Vehicles fees to pay lease rentals for the State Police portion of the laboratory facilities.

The Building Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes." The Building Commission is authorized to issue not to exceed \$150 million in

Hoosier Notes. As of June 30, 2002, \$100.4 million of Hoosier Notes were outstanding. The type, amount and timing of additional revenue bonds to refinance Hoosier Notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, interest rates, credit markets, conditions and costs and progress of construction.

In 1997 and 2002, the General Assembly authorized the TFA to issue bonds to finance additional State highway expansion and improvement projects. The TFA has approximately \$719.5 million in additional bonding capacity for such projects and expects to issue as much as \$500.0 million of additional bonds in the third quarter of 2003.

Debt Issued in Fiscal Year 2003

In December 2002, the Recreation Commission issued \$14.4 million of revenue bonds to refund a part of the Commission's outstanding 1994 revenue bonds and to develop a new State park in Prophetstown, near Lafayette. Approximately \$3.9 million of the proceeds were used for park development.

In January 2003, the Building Commission issued approximately \$83.5 million of revenue bonds to refund Hoosier Notes related to the construction of the new State Museum.

Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the policy will continue for outstanding bonds and notes.

The estimated aggregate principal amount of bonds and notes issued by each State university and college eligible for Fee Replacement Appropriations, and the amount of Fee Replacement Appropriations appropriated for Fiscal Year 2003 are shown below.

Table V-4
Schedule of Fee Replacement Debt

| | Estimated Amount of Debt Outstanding June 30, 2002 | Fiscal Year 2003 Fee Replacement Appropriations |
|-----------------------------------|--|---|
| Ball State University | \$ 77,745,000 | \$ 6,335,738 |
| Indiana University ⁽¹⁾ | 399,038,469 | 52,400,706 |
| Indiana State University | 60,870,000 | 6,542,859 |
| Ivy Tech State College | 75,895,000 | 8,611,473 |
| Purdue University ⁽²⁾ | 212,465,335 | 33,672,479 |
| University of Southern Indiana | 55,146,277 | 3,993,193 |
| Vincennes University | <u>12,629,042</u> | <u>1,853,421</u> |
| Total | \$ <u>893,789,123</u> | \$ <u>113,409,869</u> |

⁽¹⁾ Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.

⁽²⁾ Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education

Contingent Obligations

Certain State-authorized entities, including the Indiana Transportation Finance Authority, Indiana Bond Bank and the Indiana Development Finance Authority, have issued obligations that, in certain circumstances, may include payment of State funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority—Toll Road Financing. The TFA and its predecessors have issued revenue bonds (“Toll Road Bonds”) to finance and refinance the construction and improvement of the 156-mile Indiana East-West Toll Road (the “Toll Road”) in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. For a list of the indebtedness of the TFA for Toll Road Financing, *see* “Schedule of Long-Term Debt—Contingent Obligations.”

The Indiana Department of Transportation (“INDOT”) has entered into a lease agreement for the Toll Road (the “Toll Road Lease”) with the TFA. INDOT is obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by INDOT are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, INDOT is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, INDOT is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or INDOT.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, *see* “Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing” and “Transportation Finance Authority—Aviation Financing.”

Indiana Bond Bank. The Indiana Bond Bank (the “Bond Bank”), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to local governments and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds or notes issued by the Bond Bank with a debt service reserve under Indiana Code 5-1.5-5 are considered “moral obligation bonds”; however, bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds and issued by the Bond Bank, and a debt service reserve fund replacement appropriation would only be requested in the event that the particular designated sources were insufficient.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to \$1.0 billion plus (a) not to exceed \$200.0 million for certain qualified entities that operate as rural electric membership corporations

or as corporations engaged in the generation and transmission of electric energy and (b) not to exceed \$30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, these limits do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

For a list of Bond Bank bonds that are eligible for debt service reserve fund replacement appropriations, *see* “Schedule of Long Term Debt—Contingent Obligations.”

Development Finance Authority. The Indiana Development Finance Authority (the “Development Finance Authority”), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as listed in Table V-5, the Development Finance Authority’s revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority issued taxable economic development revenue bonds for Steel Dynamics, Inc. (the “Steel Dynamics Bonds”), Qualitech Steel Corporation (the “Qualitech Bonds”), and Heartland Steel, Inc. (the “Heartland Bonds”). Each of these bond issues is secured in part by a debt service reserve fund established exclusively for the related bond issue. The Qualitech Bonds and the Heartland Bonds bear interest at a variable rate and are also secured by direct-pay letters of credit issued by a commercial bank. The Development Finance Authority agreed that the Development Finance Authority would seek appropriations from the General Assembly to fund debt service on the Steel Dynamics Bonds, the Qualitech Bonds and the Heartland Bonds under certain circumstances.

Qualitech Steel, the obligor on the Qualitech Bonds, and Heartland Steel, the obligor on the Heartland Bonds, are bankrupt, and a bankruptcy court has relieved them of their obligations to make debt service payments on their indebtedness. As a result, the Development Finance Authority is paying the Qualitech Bonds and the Heartland Bonds, using appropriations made by the General Assembly.

The Steel Dynamics Bonds have been redeemed and replaced with a loan from one or more commercial banks. The debt service reserve fund established for the Steel Dynamics Bonds remains in place, together with the Development Finance Authority’s agreement to seek State appropriations to fund debt service under certain circumstances.

The Steel Dynamics Bonds financed a portion of the State’s incentives for a substantial economic development project in DeKalb County. Steel Dynamics continues to operate that project. The Qualitech Bonds financed a portion of the State’s incentives for a substantial economic development project in Hendricks County. Steel Dynamics purchased that project, and the Development Finance Authority anticipates that Steel Dynamics will begin additional production there upon completion of capital improvements and required permitting. (Steel Dynamics is in no way obligated to pay the Qualitech Bonds.) The Heartland Bonds financed a portion of the State’s incentives for a substantial economic development project in Vigo County (Terre Haute). A multi-national steel company is now operating that project. (The multi-national steel company is in no way obligated to pay the Heartland Bonds.)

See Table V-5.

Debt Statement—Contingent Obligations

Table V-5 lists the long term debt classified as contingent obligations that was outstanding on June 30, 2002. Debt classified as a contingent obligation is debt for which the issuing entity has agreed to, under certain circumstances, request an appropriation from the General Assembly to replenish a debt service reserve fund. See “Schedule of Long Term Debt—Contingent Obligations.”

Table V-5
Schedule of Long Term Debt
Contingent Obligations
(as of June 30, 2002)

| Issuer/Series | Original Par Amount | Ending Balance 6/30/01 | (Redeemed)/ Issued | Ending Balance 6/30/02 |
|---|------------------------------|------------------------------|-----------------------------|------------------------------|
| Transportation Finance Authority | | | | |
| Toll Road Bonds | | | | |
| Series 1985 | \$ 256,970,000 | \$ 26,200,000 | \$ - | \$ 26,200,000 |
| Series 1987 | 184,745,000 | 46,295,000 | (1,995,000) | 44,340,000 |
| Series 1993 | 76,075,000 | 47,770,000 | (8,595,000) | 39,175,000 |
| Series 1996 | 134,795,000 | 132,710,000 | (620,000) | 132,090,000 |
| ITFA TOTAL | <u>\$ 652,585,000</u> | <u>\$ 252,975,000</u> | <u>\$ (11,170,000)</u> | <u>\$ 241,805,000</u> |
| Bond Bank | | | | |
| Special Program Pool | | | | |
| Series 1993A | \$ 7,975,000 | \$ 6,440,000 | \$ (275,000) | \$ 6,165,000 |
| Series 1993B | 14,915,000 | 13,055,000 | (790,000) | 12,265,000 |
| Series 1994B | 7,835,000 | 6,205,000 | (425,000) | 5,780,000 |
| Series 1995A | 4,540,000 | 3,855,000 | (165,000) | 3,690,000 |
| Series 1995A | 13,280,000 | 11,740,000 | (355,000) | 11,385,000 |
| Series 1997A | 6,295,000 | 5,910,000 | (165,000) | 5,745,000 |
| Series 1997B | 22,855,000 | 22,115,000 | (1,730,000) | 20,385,000 |
| Series 1997C | 5,010,000 | 5,010,000 | - | 5,010,000 |
| Series 1998A | 6,485,000 | 6,270,000 | (185,000) | 6,085,000 |
| Series 2000A | 31,495,000 | 31,495,000 | - | 31,495,000 |
| Series 2000A (Refunding) | 32,860,000 | 24,210,000 | (9,025,000) | 15,185,000 |
| Series 2001A (Refunding) | 20,840,000 | 20,840,000 | (1,315,000) | 19,525,000 |
| Series 2001A | 7,055,000 | 7,055,000 | (110,000) | 6,945,000 |
| Series 2001B | 9,500,000 | 9,500,000 | - | 9,500,000 |
| Series 2002A | 42,910,000 | 0 | 42,910,000 | 42,910,000 |
| Series 2002C | 3,940,000 | 0 | 3,940,000 | 3,940,000 |
| BB TOTAL | <u>\$ 237,790,000</u> | <u>\$ 173,700,000</u> | <u>\$ 32,310,000</u> | <u>\$ 206,010,000</u> |
| Development Finance Authority | | | | |
| Qualitech Steel | \$ 33,100,000 | \$ 28,700,000 | \$ (1,200,000) | \$ 27,500,000 |
| Steel Dynamics | 21,400,000 | 17,600,000 | (1,100,000) | 16,500,000 |
| Heartland Steel | 13,800,000 | 12,300,000 | (400,000) | 11,900,000 |
| DFA TOTAL | <u>\$ 68,300,000</u> | <u>\$ 58,600,000</u> | <u>\$ (2,700,000)</u> | <u>\$ 55,900,000</u> |
| TOTAL ALL BONDS | <u>\$ 958,675,000</u> | <u>\$ 485,275,000</u> | <u>\$ 18,440,000</u> | <u>\$ 503,715,000</u> |

Source: State Budget Agency

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. Any such debt does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

| <u>Entity</u> | <u>Statute</u> | <u>Purpose of Debt Issuance</u> |
|---|------------------------------------|--|
| Board for Depositories | I.C. 5-13-12 Recodified 1987 | Provide guarantees for industrial development or credit enhancement for Indiana enterprises |
| Indiana Educational Facilities Authority | I.C. 29-1263 Established 1979 | Provide funds for projects to be leased to private institutions of higher learning |
| Indiana Health Facility Financing Authority ⁽¹⁾ | I.C. 5-1-16 Established 1983 | Provide health facilities with means for financing equipment and property acquisitions |
| Indiana Housing Finance Authority ⁽²⁾ | I.C. 5-20-1 Established 1978 | Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing |
| Indiana Political Subdivision Risk Management Commission | I.C. 27-1-29 Established 1986 | Provide funds to aid political subdivisions protection against liabilities |
| Indiana Port Commission | I.C. 8-10-1 Established 1961 | Provide funds to finance and construct, a broad variety of projects, including public ports, throughout Indiana |
| Indiana Secondary Market for Secondary Loans, Inc. ⁽³⁾ | I.C. 20-12-21.2 Authorized 1980 | Provide funds for secondary market for higher education loans |
| Intelenet Commission | I.C. 5-21-1 Established 1986 | Provide funds for a State-wide integrated telecommunications network |
| Indiana State Fair Commission | I.C. 15-1.5-1 Established 1990 | Provide funds for construction, repair and refurbishing of State fairgrounds |
| Indiana White River State Park Development Commission | I.C. 14-3-1 Established 1979 | Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in downtown Indianapolis |

⁽¹⁾ Originally the Indiana Hospital Equipment Financing Authority

⁽²⁾ Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.

⁽³⁾ A not-for-profit corporation authorized by the General Assembly.

VI. STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. PERF is governed by Indiana Code 5-10.2 and 5-10.3 and is administered by a five member Board of Trustees appointed by the Governor. PERF is the State's largest pension fund and has management responsibility for pension assets of State employees, local

government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On July 1, 2001, there were 206,111 active and retired members participating in PERF from State and local government with assets totaling \$8,355,549,799. PERF assets were allocated 57% to equities and 43% to fixed income.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF. The PERF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and now pays the employee contributions to PERF for State employees.

Contributions are made to PERF by the State and local units determined by normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations. The State is responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency. The table below highlights the funded status and contribution history for the State portion of PERF for the last four valuation dates.

Table VI-1
Public Employees' Retirement Fund
(State-Related Portion Only)

| As of July 1, | 1998 | 1999 | 2000 | 2001* |
|------------------------------|------------------|------------------|------------------|------------------|
| Funded Status | | | | |
| Actuarial Value of Assets | \$ 1,626,450,185 | \$ 1,828,584,443 | \$ 1,960,018,018 | \$ 2,063,626,964 |
| Actuarial Accrued Liability | 1,491,985,623 | 1,583,485,563 | 1,701,091,436 | 1,896,505,744 |
| Unfunded/(Overfunded) AAS | (134,464,562) | (245,098,880) | (258,926,582) | (167,121,220) |
| Funded Ratio | 109.0% | 115.5% | 115.2% | 108.8% |
| Contribution History | | | | |
| Annual Required Contribution | \$ 81,545,985 | \$ 67,481,016 | \$ 61,761,627 | \$ 66,559,482 |
| Actual Employer Contribution | 80,145,933 | 77,821,378 | 84,353,750 | 76,218,663 |
| Contribution Rate** | 5.7% | 5.0% | 5.0% | 5.2% |

* Revised actuarial assumptions as a result of experience review completed in December 2001 for Plan years 1995-2000.

** Contribution rate is set using the most recently completed actuarial valuation to go into effect the next fiscal year.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2001.

Other State Plans

The State appropriates moneys to several other retirement plans that are administered by the PERF Board of Trustees. These include the Judges' Retirement System, the Legislators' Defined Benefit Plan, the Excise Police and Conservation Enforcement Officers' Retirement Plan and the Prosecuting Attorneys' Retirement Fund. Table VI-2 highlights the actuarial valuation findings for these plans as of July 1, 2001.

Table VI-2
Other State Plans Pension Funds
Summary of Results of Actuarial Valuation
(as of July 1, 2001)

| | Judge's Retirement System | Legislators' Defined Benefit Plan | Excise Police & Conservation Officers' Retirement Plan | Prosecuting Attorney's Retirement Fund |
|------------------------------|------------------------------|--------------------------------------|---|--|
| <u>Funded Status</u> | | | | |
| Actuarial Value of Assets | \$ 109,729,884 | \$ 4,665,517 | \$ 36,921,405 | \$ 10,564,489 |
| Actuarial Accrued Liability | 188,610,419 | 5,508,146 | 52,024,033 | 20,417,483 |
| Unfunded/(Overfunded) AAL | 78,880,535 | 842,629 | 15,102,628 | 9,852,994 |
| Funded Ratio | 58.2% | 84.7% | 71.0% | 51.7% |
| <u>Contribution History*</u> | | | | |
| Annual Required Contribution | \$ 10,756,808 | \$ 177,559 | \$ 1,717,593 | \$ 375,145 |
| Actual Employer Contribution | 12,278,630 | 170,144 | 2,205,711 | 275,266 |

* Contribution History is for Plan Year 7/1/00 – 6/30/01

Source: Actuarial Valuation Reports, July 1, 2001.

The PERF Board of Trustees also administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

In addition, the PERF Board of Trustees administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue, Hoosier Lottery profits and investment earnings on the Public Deposit Insurance Fund. From time to time, the General Assembly has also appropriated general and dedicated funds to pension relief. During Fiscal Year 2002, \$168.8 million was expended from the pension relief fund, and on June 30, 2002, the pension relief fund balance was \$426.9 million.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") administers a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the State's public schools. Membership in TRF is required for all legally qualified and regularly employed public school teachers. TRF provides retirement benefits, as well as death and disability benefits. Indiana Code 21-6.1 governs TRF, and TRF is administered by a five member Board of Trustees appointed by the Governor ("TRF Board"). On June 30, 2002, TRF had 115,456 total members with assets totaling \$5,722,753,180. TRF's assets were allocated 43% to equities and 57% to fixed income.

The TRF benefit consists of (1) a pension formula benefit based upon years of service and final average salary, and (2) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, each employer was authorized to elect to "pick up" the employee contribution.

For employees hired prior to July 1, 1995, moneys to pay retirement benefits are provided from State appropriations on a "pay as you go" basis. As a result, there is a substantial unfunded accrued liability in the TRF (the "Closed Plan").

To address TRF's unfunded liability, the State and the TRF Board took the following actions:

1. The State capped its pension benefit obligation by (a) shifting the obligation for all teachers hired after July 1, 1995 to local school districts and (b) implementing a level percent of payroll current funding approach (the “New Plan”). The TRF Board sets the contribution rate for the New Plan based on an actuarial valuation of the Plan.

2. The New Plan is intended to be responsible for the total cost of teachers transferring to other school corporations after 1995. The TRF Board began addressing the unfunded liability developing in the New Plan as a result of the impact of teacher transfers, by increasing the required payroll contribution rate to 9.0%, the rate recommended by TRF’s actuary.

3. In 1996, the State changed the State constitution to allow investment in equities, thereby increasing earnings potential for plan assets.

In addition, the State established the Pension Stabilization Fund to reduce future General Fund appropriations for TRF liabilities beginning in Fiscal Year 2006. Payments from the Pension Stabilization Fund were intended to equal the difference between (1) the then current year liability and (2) 106% of the prior year’s payment from the General Fund for the liability. As of June 30, 2002, the Pension Stabilization Fund balance was \$1.787 billion. The Pension Stabilization Fund was funded from General Fund, Hoosier Lottery and gaming revenues, as well as investment income.

To balance the budget for Fiscal Years 2004 and 2005, and to fund current teacher pension obligations for Fiscal Years 2004 and 2005, the General Assembly authorized transfer of a total of \$380.0 million from the Pension Stabilization Fund to the General Fund. In addition, the General Assembly redirected Hoosier Lottery profits that otherwise would have been deposited in the Pension Stabilization Fund. Unless remedied, such actions will reduce the effectiveness of the Pension Stabilization Fund and result in the need for greater appropriations to fund future TRF obligations.

Table VI-3
Indiana State Teachers’ Retirement Fund

| As of June 30, | 1998 | 1999 | 2000 | 2001 | 2002 |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Funded Status of Closed Plan | | | | | |
| Actuarial Value of Assets | \$ 4,130,388,693 | \$ 4,730,666,420 | \$ 5,209,889,286 | \$ 5,363,497,813 | \$ 5,555,352,257 |
| Actuarial Accrued Liability | 11,481,766,668 | 2,172,501,450 | 12,409,275,218 | 12,695,787,691 | 13,497,778,031 |
| Unfunded/(Overfunded) AAL | 7,351,377,975 | 7,441,835,030 | 7,199,382,932 | 7,332,289,878 | 7,942,425,774 |
| Funded Ratio | 36.0% | 38.9% | 42.0% | 42.2% | 41.2% |
| Funded Status of New Plan* | | | | | |
| Actuarial Value of Assets | \$ 135,923,370 | \$ 240,053,914 | \$ 368,157,499 | \$ 447,261,751 | \$ 621,222,272 |
| Actuarial Accrued Liability | 298,407,427 | 498,422,993 | 705,790,225 | 838,038,282 | 1,166,883,205 |
| Unfunded AAL | 162,484,057 | 258,369,079 | 337,632,726 | 380,776,531 | 545,660,933 |
| Funded Ratio | 45.5% | 48.2% | 52.2% | 54.0% | 53.2% |

* Total Unfunded Accrued Liability of the New Plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Closed Plan.

Source: Indiana State Teachers’ Retirement Fund, The Report of the Annual Actuarial Valuation, June 30, 2002.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member’s highest salary in 36 consecutive months or a third year trooper’s pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount. The State Police Pension Fund is funded on an actuarial basis. The Treasurer of State is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in the Indiana Comprehensive Annual Financial Report. See “FISCAL POLICIES—Certain Financial Information Incorporated Herein by Reference; Availability from NRMSIRs, State.”

VII. ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The “Crossroads of America,” Indiana is within a day’s drive of nearly two-thirds of the United States’ population. Indiana benefits from proximity to major markets and population centers—both national and international. With 10,023 miles of State highways and 1,172 miles of interstate highways, Indiana has more interstate highways passing through it than any other state.

Indiana also benefits from a relatively low cost of living. The cost of living index for Indiana’s major cities has been consistently below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial consumers while residential energy bills were 17.2% lower than the national average.

During the past decade, Indiana’s economy grew in size and diversity. With an estimated 2000 Gross State Product of approximately \$192.2 billion, Indiana’s economy ranks fifteenth largest in the country in terms of the value of goods and services produced. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel. From 1992 to 2002, Indiana witnessed a significant shift in the distribution of employment between sectors. Employment in the Professional and Business Services sector increased by 45%, followed by a 27% gain in Education and Health Services and a 23% increase in Leisure and Hospitality. The Manufacturing sector is 20.4% of total employment in Indiana, a decrease from 23.4% in 1992, and is the largest single sector of employment in Indiana.

Population

Indiana is the 14th most populous state in the United States. Indiana’s population grew by 1.0% from 1980 to 1990 and 9.7% from 1990 to 2000. The capital and largest city is Indianapolis. From 1990 to 2000, population within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest.

Table VII-1
Population, including Selected Indiana MSAs

| | <u>1980</u> | <u>1990</u> | <u>2000</u> | <u>% Change 1980-2000</u> |
|------------------------------|-------------|-------------|-------------|-------------------------------|
| Indiana | 5,490,210 | 5,544,159 | 6,080,485 | 10.8 |
| Indianapolis MSA | 1,166,575 | 1,249,822 | 1,607,486 | 37.8 |
| Fort Wayne MSA | 354,156 | 363,811 | 502,141 | 41.8 |
| Evansville- Henderson MSA | 235,403 | 235,946 | 251,366 | 6.8 |
| Gary Primary MSA | 642,733 | 604,526 | 631,362 | -1.8 |
| South Bend MSA | 241,617 | 247,052 | 265,559 | 9.9 |
| United States | 226,542,199 | 248,709,873 | 281,421,906 | 24.2 |

Source: U.S. Census Bureau

**Table VII-2
Demographic Profile**

| Age (Years) | <u>Indiana</u> | | <u>United States</u> | |
|----------------|----------------|-------------|----------------------|-------------|
| | <u>1990</u> | <u>2000</u> | <u>1990</u> | <u>2000</u> |
| Under 5 | 7.2% | 7.0% | 7.6% | 6.8% |
| 5-17 | 18.7% | 18.9% | 18.2% | 18.9% |
| 18-24 | 11.0% | 10.2% | 10.8% | 9.7% |
| 25-44 | 31.5% | 29.4% | 32.4% | 30.2% |
| 45-64 | 19.1% | 22.0% | 18.6% | 22.0% |
| 65 and older | 12.6% | 12.4% | 12.5% | 12.4% |
| Median Age | 35.4 years | 35.2 years | 32.8 years | 35.3 years |

Source: U.S. Census Bureau

Employment

During this past decade, employment in Indiana shifted significantly between sectors, reflecting the fundamental changes taking place in the state's economy and following larger trends at the national level. Although manufacturing is still the largest sector of employment at 20.4% of total employment, it was the slowest growing sector from 1992 to 2002. The fastest growing sectors were Professional & Business Services, which grew by 45.1% from 1992 to 2002, followed by Education & Health Services (26.8% growth) and Leisure & Hospitality (22.6% growth). Indiana lost 19,600 jobs between December 2001 and December 2002, representing a 0.7% decline. Since 1988, Indiana's annual unemployment rate has remained below that of the United States.

**Table VII-3
Year-Ending Non-Farm Employment
(Seasonally Adjusted)**

| <u>Year</u> | <u>Total Employment</u> | | <u>% Change</u> | | <u>Net New Jobs</u> |
|---|-------------------------|-------------|-----------------|-------------|---------------------|
| | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> |
| 1992 | 2,580,400 | 109,266,000 | 2.5% | 1.1% | 64,000 |
| 1993 | 2,669,700 | 112,034,000 | 3.5 | 2.5 | 89,300 |
| 1994 | 2,757,200 | 115,918,000 | 3.3 | 3.5 | 87,500 |
| 1995 | 2,807,100 | 118,118,000 | 1.8 | 1.9 | 49,900 |
| 1996 | 2,836,700 | 120,916,000 | 1.1 | 2.4 | 29,600 |
| 1997 | 2,881,100 | 124,270,000 | 1.6 | 2.8 | 44,400 |
| 1998 | 2,952,900 | 127,297,000 | 2.5 | 2.4 | 71,800 |
| 1999 | 3,005,400 | 130,406,000 | 1.8 | 2.4 | 52,500 |
| 2000 | 2,975,700 | 132,319,000 | -1.0 | 1.5 | -29,700 |
| 2001 | 2,900,000 | 130,890,000 | -2.5 | -1.1 | -75,700 |
| 2002 | 2,880,400 | 130,670,000 | -0.7 | -0.2 | -19,600 |
| Average Annual Growth Rate (1992-2002): | | | 1.1 | 1.8 | |
| Total Growth (1992-2002): | | | 11.6 | 19.6 | 300,000 |

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-4
Year-Ending Non-Farm Employment by Sector
(Seasonally Adjusted in Thousands)

| <u>Sector</u> | <u>1992</u> | <u>% of Total</u> | <u>2002</u> | <u>% of Total</u> | <u>Growth 1992-2002</u> |
|-----------------------------------|---------------|-------------------|---------------|-------------------|-----------------------------|
| Mining | 7.2 | 0.3% | 7.1 | 0.2% | -1.4% |
| Construction | 116.7 | 4.5 | 137.5 | 4.8 | 17.8 |
| Manufacturing | 604.1 | 23.4 | 586.5 | 20.4 | -2.9 |
| Trade, Transportation & Utilities | 527.9 | 20.5 | 579.0 | 20.1 | 9.7 |
| Information | 42.2 | 1.6 | 42.0 | 1.5 | -0.5 |
| Financial Activities | 130.5 | 5.1 | 140.5 | 4.9 | 7.7 |
| Professional & Business Services | 169.0 | 6.5 | 245.2 | 8.5 | 45.1 |
| Education & Health Services | 277.6 | 10.8 | 352.0 | 12.2 | 26.8 |
| Leisure & Hospitality | 214.9 | 8.3 | 263.4 | 9.1 | 22.6 |
| Other Services | 100.8 | 3.9 | 109.1 | 3.8 | 8.2 |
| Government | 389.5 | 15.1 | 418.1 | 14.5 | 7.3 |
| Total | <u>2580.4</u> | <u>100.0</u> | <u>2880.4</u> | <u>100.0</u> | <u>11.6</u> |

Source: U. S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Table VII-5
Unemployment Rate
(Annual Averages of Monthly Data)

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana as % of U.S.</u> |
|-------------|----------------|-------------|-----------------------------|
| 1992 | 6.6% | 7.5% | 88.0% |
| 1993 | 5.4 | 6.9 | 78.3 |
| 1994 | 4.9 | 6.1 | 80.3 |
| 1995 | 4.7 | 5.6 | 83.9 |
| 1996 | 4.1 | 5.4 | 75.9 |
| 1997 | 3.5 | 4.9 | 71.4 |
| 1998 | 3.1 | 4.5 | 68.9 |
| 1999 | 3.0 | 4.2 | 71.4 |
| 2000 | 3.2 | 4.0 | 80.0 |
| 2001 | 4.4 | 4.7 | 93.6 |
| 2002 | 5.1 | 5.8 | 87.9 |

Source: U. S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Income

In 2002, Indiana's per capita personal income reached \$28,240, increasing as a whole 2.6% from 2001. During the past ten years, Indiana's personal income grew at an average annual rate of 3.94%. From 1991 to 2001, Indiana's median household income grew faster than that of the United States, averaging an annual growth rate of 1.69% for Indiana as compared to 0.97% for the United States. In 2001, median income was \$41,192 or 96% of the U.S. average, up from 90% in 1991.

Table VII-6
Growth in Per Capita Personal Income

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> | <u>U.S.</u> |
|---|----------------|-------------|----------------|-------------|
| 1992 | 19,181 | 20,960 | 6.5 % | 4.7 % |
| 1993 | 19,982 | 21,539 | 4.2 | 2.8 |
| 1994 | 20,978 | 22,340 | 5.0 | 3.7 |
| 1995 | 21,623 | 23,255 | 3.1 | 4.1 |
| 1996 | 22,501 | 24,270 | 4.1 | 4.4 |
| 1997 | 23,418 | 25,412 | 4.1 | 4.7 |
| 1998 | 24,891 | 26,893 | 6.3 | 5.8 |
| 1999 | 25,543 | 27,880 | 2.6 | 3.7 |
| 2000 | 27,010 | 29,760 | 5.7 | 6.7 |
| 2001 | 27,522 | 30,413 | 1.9 | 2.2 |
| 2002 | 28,240 | 30,941 | 2.6 | 1.7 |
| Average Annual Growth Rate (1992-2002): | | | 3.94% | 3.97% |

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table VII-7
Growth in Median Household Income
(Two-Year Average)

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> | <u>Indiana</u> | <u>U.S.</u> |
|---|----------------|-------------|----------------|-------------|
| 1991 | \$ 34,849 | \$ 38,754 | -1.9 % | -2.1 % |
| 1992 | 34,805 | 38,032 | -0.1 | -1.9 |
| 1993 | 35,417 | 37,784 | 1.8 | -0.7 |
| 1994 | 34,236 | 37,904 | -3.3 | 0.3 |
| 1995 | 35,711 | 38,712 | 4.3 | 2.1 |
| 1995 | 38,995 | 37,857 | 9.2 | 2.3 |
| 1997 | 41,126 | 40,284 | 5.5 | 1.8 |
| 1998 | 42,931 | 41,436 | 4.4 | 2.9 |
| 1999 | 43,283 | 42,764 | 0.8 | 3.2 |
| 2000 | 41,937 | 43,211 | -3.1 | 1.0 |
| 2001 | 41,192 | 42,695 | -1.8 | -1.2 |
| Average Annual Growth Rate (1991-2001): | | | 1.69% | 0.97% |

Source: U.S. Census Bureau: *Current Population Survey*

Table VII-8
Poverty Rates

| <u>Year</u> | <u>Indiana</u> | <u>U.S.</u> |
|-------------|----------------|-------------|
| 1991 | 15.7% | 14.2% |
| 1992 | 11.8% | 14.8% |
| 1993 | 12.2% | 15.1% |
| 1994 | 13.7% | 14.5% |
| 1995 | 9.6% | 13.8% |
| 1996 | 7.5% | 13.7% |
| 1997 | 8.8% | 13.3% |
| 1998 | 9.4% | 12.7% |
| 1999 | 6.7% | 11.8% |
| 2000 | 8.7% | 11.3% |
| 2001 | 8.5% | 11.7% |

Source: U.S. Census Bureau: *Current Population Survey*

Gross State Product

With an estimated 2000 Gross State Product of approximately \$192.2 billion, Indiana's economy ranks fifteenth largest in the country in terms of the value of goods and services produced. Since 1990, Indiana's Gross State Product has grown at average annual rate of 5.7%.

Table VII-9
Gross State Product (GSP) and Gross Domestic Produce (GDP)
(Millions of Dollars, Current Dollars)

| | <u>1980</u> | <u>1990</u> | <u>2000</u> | Average Annual Growth Rate <u>1990-2000</u> | <u>% of Total</u> |
|-------------------------------|-------------|-------------|-------------|--|-------------------|
| Indiana | 58,379 | 110,788 | 192,195 | 5.7% | 100.0% |
| Agriculture | 1,907 | 2,273 | 2,225 | -0.2 | 1.2 |
| Mining | 493 | 640 | 674 | 0.5 | 0.4 |
| Construction | 2,685 | 5,074 | 9,836 | 6.8 | 5.1 |
| Manufacturing | 19,510 | 33,665 | 58,906 | 5.8 | 30.6 |
| Transportation & Utilities | 5,184 | 10,111 | 14,436 | 3.6 | 7.5 |
| Wholesale Trade | 3,586 | 6,452 | 11,448 | 5.9 | 6.0 |
| Retail Trade | 5,610 | 10,238 | 17,365 | 5.4 | 9.0 |
| F.I.R.E. | 7,219 | 13,691 | 25,422 | 6.4 | 13.2 |
| Services | 6,318 | 16,416 | 32,755 | 7.2 | 17.0 |
| Government | 5,868 | 12,228 | 19,128 | 4.6 | 10.0 |
| United States | 2,731,618 | 5,706,658 | 9,941,522 | 5.7 | 100.0 |

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Exports

In 2002, Indiana businesses exported \$14,923.0 million worth of goods to other countries, an increase of 3.4% from 2001. Since 1996, Indiana's exports have grown at an average annual rate of 5.2% as compared to 1.8% for the United States as a whole.

Table VII-10
Exports
(Millions of Dollars)

| Year | <u>Exports in Millions of Dollars</u> | | <u>Annual Percentage Change</u> | | |
|---|---------------------------------------|-----------|---------------------------------|-------|-----------------------------------|
| | Indiana | U.S. | Indiana | U.S. | Indiana as a % of U.S. Exports |
| 1996 | 10,983.6 | 622,827.1 | | | 1.8 |
| 1997 | 12,028.5 | 687,598.0 | 9.5 | 10.4 | 1.7 |
| 1998 | 12,318.1 | 680,474.2 | 2.4 | (1.0) | 1.8 |
| 1999 | 12,910.3 | 692,820.6 | 4.8 | 1.8 | 1.9 |
| 2000 | 15,385.8 | 780,418.6 | 19.2 | 12.6 | 2.2 |
| 2001 | 14,365.4 | 731,025.1 | (6.6) | (6.3) | 2.1 |
| 2002 | 14,923.0 | 693,257.3 | 3.9 | (5.2) | 2.2 |
| Average Annual Growth Rate (1996-2002): | | | 5.2 | 1.8 | |
| Total Growth (1996-2002): | | | 35.9 | 11.3 | |

Source: U.S. Census Bureau, Foreign Trade Division

Table VII-11
Indiana's Leading Export Industries and Destinations
(Millions of Dollars)

| <u>Export Industries</u> | | <u>Export Destinations</u> | |
|-----------------------------|---------------------|----------------------------|---------------------|
| <u>Industry</u> | <u>2002 Exports</u> | <u>Country</u> | <u>2002 Exports</u> |
| Vehicles, excluding Railway | \$4,141.1 | Canada | \$6,819.3 |
| Machinery | 3,215.4 | Mexico | 1,942.5 |
| Electrical Machinery | 1,356.3 | United Kingdom | 1,006.7 |
| Optic/Medical Instruments | 903.0 | Japan | 714.1 |
| Organic Chemical | 892.3 | France | 637.6 |
| Plastic | 627.2 | Germany | 525.1 |
| Miscellaneous Chemical | 562.6 | Netherlands | 295.3 |
| Pharmaceutical | 546.6 | Singapore | 252.7 |
| Iron and Steel | 209.9 | Korea | 244.7 |
| Aluminum | 207.7 | Australia | 227.8 |
| Other | 2,265.9 | Other | 2,257.2 |

Source: U.S. Census Bureau, Foreign Trade Division

VIII. LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State, which involve amounts exceeding \$5.0 million individually or in the aggregate as of May 28. With respect to tort claims only, the State's liability is limited to \$300,000 for injury to or death of one person in any one occurrence, and \$5.0 million for injury to or death of all persons in that occurrence. This summary is not exhaustive as to the description of the specific litigation or claims described or as to all the litigation or claims pending or threatened against the State.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The District Court entered its final judgment in 1981, holding the State responsible for most costs of the desegregation plan. Those costs have been part of the State budget since that time. In June 1998, an 18-year phase out of the desegregation plan was negotiated and approved by the District Court. State expenditures will be gradually reduced as the desegregation plan is phased out.

In July 1993, a class action was filed in Marion Superior Court alleging that the State failed to pay certain similarly classified State employees equal rates of pay. The class was certified by the Superior Court, and notification of the class is in process. No trial date has been set. The relief sought includes damages in an unspecified amount, as well as injunctive relief. If the plaintiffs are successful, the cost to the State would exceed \$5.0 million.

In a lawsuit filed against the State in January 1993, the Marion Superior Court invalidated that portion of a Medicaid disability standard that permits the State not to assist applicants who are unable to pay for treatment, but have a medical condition that will improve with treatment. After appeal and further trial court action, the Superior Court again invalidated the standard in December 1999, and the Indiana Court of Appeals affirmed the Superior Court's decision. The State sought transfer of the lawsuit to the Indiana Supreme Court. In July 2001, the Supreme Court denied transfer, affirming the Superior Court's court decision. The State and the plaintiffs agreed on a means for the State to comply with the judgment, and the agreement was approved by the Superior Court. The State has paid out approximately \$17.0 million in provider-submitted claims and issued refunds in the amount of approximately \$57,000. The deadline for submitting claims is August 11, 2003; however, an issue with implementation of the judgment could result in extension of the claims deadline.

In 1993, transportation providers filed suit against the State challenging the current Medicaid reimbursement program for transportation services. The State prevailed in both State and Federal trial courts, but

the plaintiffs appealed. The State won the State appeal, but the Federal appeal resulted in the suit being remanded to the State trial court. The State will retry the Federal issues before the State trial court. If the rules are enjoined, the State would forfeit savings to the Medicaid program in excess of \$5.0 million. Mediation was not successful. Trial is scheduled for April 2004.

In September 2000, various Lake County officials filed a lawsuit in State Tax Court alleging that residents of the county pay a disproportionate share of Hospital Care for the Indigent (“HCI”) property tax and, as a result, there is a violation of the Indiana constitution. In April 2002, the Tax Court decided that the HCI assessment was unconstitutional, but denied application for retroactive refunds and permitted the continued collection of the tax until January 1, 2003. The Indiana Supreme Court reversed the Tax Court. However, a taxpayer is seeking a rehearing by the Tax Court and the Supreme Court on Federal constitutional issues. In addition, other Lake County taxpayers filed suit in the United States District Court for the Northern District of Indiana challenging the HCI assessment. HCI tax revenues total approximately \$128.0 million per year.

In July 2000, a corporation operating a riverboat casino challenged the Indiana Department of Revenue’s interpretation of a riverboat gaming tax provision, alleging that the tax is not an “add-back” for corporate income tax purposes. The corporation and the State filed cross-motions for summary judgment. The motions are pending in State Tax Court. The potential cost to the State is between \$5.0 million and \$10.0 million; however, the cost to the State may be greater if a precedent is set that would benefit other riverboat casino operations.

In December 2000, property owners filed an action against the Indiana Department of Environmental Management, the Office of Environmental Adjudications and current and former agency officials alleging that denial of a permit for certain land use was an unconstitutional taking of property and a denial of due process, as well as a violation of the Indiana constitution. The plaintiffs are seeking in excess of \$30.0 million in damages plus attorney fees and costs. Upon completion of review of administrative issues by a State court, the Federal court will address issues under United States Code section 1983.

In May 2000, property owners along Fawn River in Northern Indiana filed an action against the Governor, the Indiana Department of Natural Resources and agency officials and employees alleging violations of the Clean Water Act, unconstitutional takings of property and violations of United States Code section 1983. The plaintiffs are seeking in excess of \$38.0 million in damages plus attorney fees and costs. The United States District Court granted the State’s motion for summary judgment; and the judgment is under appeal to the United States Court of Appeals for the Seventh Circuit.

In February 2001, a class action was brought on behalf of plaintiffs seeking injunctive relief to cause the State’s Family and Social Services Administration to provide residential mental health placement for a class of certain Medicaid-eligible children. At present, the State’s Medicaid program pays for mental health treatment, but does not pay for residential placement (room and board). If the plaintiffs are successful, the State would be required to pay for residential placement for the entire class. The size of the class is unknown, but it could include thousands of children. If so, the cost to the State could exceed \$5.0 million. On October 1, 2002, the United States District Court granted the plaintiffs’ motion for a summary judgment on the Medicaid issue. The judgment is under appeal to the United States Court of Appeals for the Seventh Circuit.

In 2001 and 2002, four entities operating riverboat casinos filed lawsuits alleging that their purchases of riverboats were not properly subject to Indiana sales and use tax. Each of the taxpayers alleges that the riverboats should not be taxed because the entities were entitled to a public transportation exemption and because the riverboats are considered to be real estate (not personal property) for Indiana property tax purposes. Collectively, the financial impact of the lawsuits is between \$7.0 million and \$8.0 million.

In April 2002, a class action was filed by six federal retirees, who allege that the State’s method for taxing federal employee retirement benefits violates Federal law because the method results in greater taxation than is collected from other retirees who collect Social Security. The total impact of this action exceeds \$5.0 million. The plaintiffs filed for a motion for summary judgment alleging that the applicable statute regarding class certification is unconstitutional. The Indiana Department of Revenue filed a response and a motion for a partial summary judgment.

In July 2002, a corporation filed a breach of contract action against the Indiana Department of Environmental Management (“IDEM”), alleging that IDEM failed to abide by the terms of an agreed order relating to environmental clean-up costs. The plaintiff is seeking \$5.0 million in damages. The State’s motion to dismiss the action, and the plaintiff’s motion for summary judgment, were denied.

In August 2002, an accounting firm hired to conduct the reassessment of real property in Lake County filed a breach of contract suit against the State. The plaintiff seeks \$12.0 million in damages, alleging that State approved invoices for the plaintiff’s services, but then failed to abide by contractual provisions requiring the State to take steps to force Lake County to pay the invoices. A trial date has been set.

If successful, a bank’s claim for a refund of part of its 1995 financial institutions tax payment may exceed \$5.0 million. The bank alleges that the applicable statute violates the Commerce Clause of the United States constitution and that the Indiana Department of Financial Institutions incorrectly failed to credit out-of-state taxes paid by non-resident members of the bank’s unitary group. Trial is set on the statutory issue of whether certain members of the unitary group are properly members for financial institutions tax purposes.

In January 2003, a large business with property in the City of East Chicago filed an amended complaint in Marion Superior Court alleging that the City improperly reduced the assessed value reported by the plaintiff from \$1,210.3 million to \$750,000,000 as the City determined budgets, tax rates and tax levies for 2002. The plaintiff alleges that various local and State officials, including the State Department of Local Government Finance, did not follow proper procedures and, as a result, the plaintiff’s tax burden was increased. In addition, the plaintiff alleges that an applicable State statute permits a non-uniform and unequal rate of assessment in violation of the State constitution. The State has filed a motion to dismiss.

SERIES 2003 C QUALIFIED OBLIGATIONS**A. Certain General Economic and Demographic Information**

The Whiting Sanitary District (the "District") is coterminous with the corporation limits of the City of Whiting (the "City") and is located in Lake County, 15 miles southeast of Chicago, 170 miles northwest of Indianapolis, and bordered on the north by Lake Michigan. The City is part of the Calumet region, a highly industrialized area that provides employment opportunities for residents of the area. Many Whiting residents also work in downtown Chicago. The 2000 population of the City was 5,137. The District serves approximately 1,575 users.

B. Purpose

The purpose of the proposed Bonds is to advance refund the Sanitary District Bonds of 1996 outstanding in the principal amount of \$5,745,000 and to currently refund the Sanitary District Refunding Bonds of 1994 outstanding in the principal amount of \$3,215,000.

C. Description of Qualified Obligations

| | |
|--------------------|---|
| Total Principal | - \$9,520,000 to mature serially over 12 years. |
| Security | - The Refunding Bonds are an obligation and indebtedness of the District and shall be payable solely from the special benefits tax which is an unlimited ad valorem tax to be levied and collected on all taxable property in the District. |
| Principal Payments | - Semi-annual principal payments commencing January 10, 2004 and terminating January 1, 2016. |
| Interest Payments | - Semi-annual interest payments commencing January 10, 2004 and each July 10 and January 10 thereafter. |

D. Financial Data Relating to the Qualified Entity**Net Assessed Valuation**

| <u>Payable Year</u> | <u>Real Property</u> | <u>Personal Property</u> | <u>Total Net Assessed Valuation</u> |
|-------------------------|--------------------------|------------------------------|---|
| 2002 | \$ 65,444,370 | \$ 223,187,950 | \$ 288,632,320 |
| 2001 | 21,820,918 | 68,091,310 | 89,912,228 |
| 2000 | 21,805,795 | 76,353,600 | 98,159,395 |
| 1999 | 21,547,120 | 94,102,540 | 115,649,660 |
| 1998 | 21,533,355 | 96,723,490 | 118,256,845 |

For the 2001 Pay 2002 tax year and subsequent years, property is valued at True Tax Value rather than Assessed Value. This has generally resulted in net assessed valuations being approximately three times higher than prior years.

Property Taxes Levied and Collected

| <u>Tax Collection Year</u> | <u>Property Tax Levied</u> | <u>Property Tax Collected</u> | <u>Percent Collected</u> |
|------------------------------------|------------------------------------|---------------------------------------|------------------------------|
| 2002 | \$ 23,854,057 | 23,097,384 | 96.83% |
| 2001 | 21,735,838 | 20,765,229 | 95.53 |
| 2000 | 20,390,226 | 20,220,665 | 99.17 |
| 1999 | 24,883,804 | 24,919,564 | 100.14 |
| 1998 | 24,698,990 | 24,624,524 | 99.70 |

Direct and Overlapping Debt (As of February 15, 2003)

| | |
|------------------------------|----------------|
| Assessed Valuation 2001/2002 | \$ 288,632,320 |
| Population | 5,137 |

| | <u>Amount</u> | <u>Debt Per Capita</u> | <u>Ratio of Debt/Assessed Valuation</u> |
|---|----------------------|----------------------------|---|
| Direct Debt (including proposed issue) | \$ 10,824,214 | \$ 2,107.11 | 3.75% |
| Overlapping/Underlying Direct Debt and Lease Obligations | <u>4,967,061</u> | <u>966.92</u> | <u>1.72</u> |
| Total Direct and Overlapping Debt | <u>\$ 15,791,275</u> | <u>\$ 3,074.03</u> | <u>5.47%</u> |

Largest Employers

| <u>Name</u> | <u>Business</u> | <u>Approximate Number of Employees</u> |
|------------------------------|--|--|
| BP Products, North America | Oil Refining & Chemical Manufacturing | 1,224 |
| City of Whiting | Municipality | 181 |
| School City of Whiting | Public Education | 169 |
| Whiting Clean Energy Corp. | Utility | 24 |
| Michigan Industrial Hardwood | Industrial Lumber Company | 12 |

Ten Largest Taxpayers

| <u>Name</u> | <u>Type of Business</u> | <u>Pay 2002 Assessed Valuation</u> | <u>Percent of Total Net Assessed Valuation</u> |
|------------------------------------|---|------------------------------------|--|
| BP Products, North America (1) | Chemical Manufacturing and Oil Refinery | \$ 232,607,250 | 80.59% |
| Whiting Clean Energy Corp. (2) | Utility | 14,830,720 | 5.14 |
| LTV Steel Company, Inc. (3) | Closed Facility | 6,393,880 | 2.22 |
| Rental Service Corp., USA, Inc. | Rental Equipment | 1,850,690 | 0.64 |
| SBC Ameritech | Telephone Utility | 1,687,990 | 0.58 |
| Globe Building Materials, Inc. (4) | Closed Facility | 1,442,280 | 0.50 |
| RC Can Company | Industrial Real Estate | 914,200 | 0.31 |
| Northern Indiana Public Svc. Co. | Natural Gas and Electric Utility | 701,400 | 0.24 |
| Gii Acquisition, Inc. (5) | Industrial Real Estate | 585,700 | 0.20 |
| Walgreen Company | Retail Drug Store | <u>541,440</u> | <u>0.19</u> |
| Totals | | <u>\$ 261,555,550</u> | <u>90.61%</u> |

(1) BP Products, North America has pending tax assessment appeals outstanding from 2000, 2001 and 2002 and further appeal from 1999 is under consideration.

(2) Whiting Clean Energy Corporation recently constructed a power generating facility, which began generating power in April 2002. The power plant was constructed in Whiting due to its proximity to load requirements of northwest Indiana and Chicago markets. It is Whiting Clean Energy's intention to sell the steam by-product of power generation to BP Products, North America.

The construction investment for the Whiting Clean Energy facility was approximately \$320,000,000, and it has a current gross assessed valuation of \$259,153,290. The City of Whiting has granted Whiting Clean Energy Corporation a ten-year abatement beginning in the 2002 tax payment year. The power plant is located in the Whiting Redevelopment Commission's tax increment financing (TIF) allocation area which will capture 80% of the growth in assessed value. The remaining 20% will benefit the District and other overlapping taxing units.

(3) LTV Steel filed bankruptcy in 2000 and is currently delinquent for taxes payable in 2001 and 2002, for a total of \$1,133,789, including penalties/interest. The assets of LTV Steel were sold to Integrated Steel Corporation in April 2002 and the plant was reopened in May 2002.

(4) Globe Building Materials has filed bankruptcy and is currently delinquent for taxes payable in 2001 and 2002, for a total of \$219,080, including penalties/interest.

(5) Gii Acquisition has filed bankruptcy and is delinquent for taxes payable in 2001 and 2002, for a total of \$95,123, including penalties/interest, and is scheduled for tax sale.

CITY OF WHITING

Historical Detail of Corporation Tax Rates Per \$100 of Net Assessed Valuation (Per the Lake County Auditor's Office)

| | <u>2002(1)</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|----------------|----------------|-------------|-------------|-------------|-------------|
| General Fund | \$ 1.8287 | \$ 5.7062 | \$ 4.6000 | \$ 4.1118 | \$ 4.0079 |
| Debt Service | 0.0358 | 0.1027 | 0.0923 | 0.0848 | 0.1775 |
| Fire Pension | 0.0807 | 0.2241 | 0.1800 | 0.1577 | 0.0955 |
| Police Pension | 0.1153 | 0.3247 | 0.2500 | 0.2365 | 0.0955 |

| | | | | | |
|------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Park & Recreation | 0.2270 | 0.7120 | 0.6000 | 0.5635 | 0.5143 |
| Public Lighting | 0.0327 | 0.1011 | 0.1300 | 0.1183 | 0.1023 |
| Cumulative Capital Development | 0.0400 | 0.1200 | 0.1200 | 0.1200 | 0.1200 |
| Sanitary District – Sanitary Sewer | | | 1.5000 | 1.4659 | 1.3585 |
| Sanitary District Bond | | | 1.1400 | 0.9851 | 1.3310 |
| Redevelopment – General | <u>0.0333</u> | <u>0.1000</u> | <u>0.1000</u> | <u>0.1095</u> | <u>0.0938</u> |
| Total | <u>\$ 2.3935</u> | <u>\$ 7.3908</u> | <u>\$ 8.7123</u> | <u>\$ 7.9531</u> | <u>\$ 7.8963</u> |
| <u>Total Tax Rate:*</u> | | | | | |
| City of Whiting | <u>\$ 8.1979</u> | <u>\$ 24.0858</u> | <u>\$ 20.9561</u> | <u>\$ 21.4243</u> | <u>\$ 20.6904</u> |

* Includes tax rates of overlapping taxing units

- (1) For the 2001 Pay 2002 tax year and subsequent years, property is valued at True Tax Value rather than Assessed Value. This has generally resulted in tax rates being approximately one-third of prior years.

FORM OF APPROVING BOND COUNSEL OPINION

June 19, 2003

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank Special Program Bonds, Series 2003 C

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of its Special Program Bonds, Series 2003 C, dated as of June 19, 2003 (the "Bonds"), in the aggregate principal amount of \$10,425,000, pursuant to Indiana Code 5-1.5, as amended, and a Trust Indenture between the Issuer and National City Bank of Indiana, as trustee (the "Trustee"), dated as of May 1, 2003 (the "Indenture"). We have examined the law and such certified proceedings for the authorization, issuance and sale of the Bonds and such other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Issuer contained in the Indenture, the certified proceedings for the authorization, issuance and sale of the Bonds and other certifications of public officials furnished to us, and certifications, representations and other information furnished to us by or on behalf of the Issuer, the Series 2003 C Qualified Entity (as defined in the Indenture) and others, including certifications contained in the tax and arbitrage certificate of the Issuer, dated the date hereof, and the tax and arbitrage certificate of the Series 2003 C Qualified Entity, dated the date hereof, without undertaking to verify the same by independent investigation. We have relied upon the opinion of Bingham McHale LLP, Indianapolis, Indiana, counsel to the Issuer, dated the date hereof, as to the matters stated therein and Ice Miller, Indianapolis, Indiana, bond counsel to the 2003 C Qualified Entity, dated the date hereof, as to the matters stated therein. We have relied upon the report of Crowe, Chizek and Company LLP, Indianapolis, Indiana, independent certified public accountants, dated the date hereof, as to the matters stated therein.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a body corporate and politic validly existing under Indiana Code 5-1.5, with the corporate power to execute and deliver the Indenture and to issue, execute and deliver the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the Issuer, and are valid and binding limited obligations of the Issuer, enforceable in accordance with their terms. The Bonds are payable solely from the Trust Estate (as defined in the Indenture).
3. The Indenture has been duly authorized, executed and delivered by the Issuer, and is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.
4. Under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on this date (the "Code"), the interest on the Bonds is excluded from gross income for federal income tax purposes. The opinion set forth in the preceding sentence is subject to the condition that the Issuer and the Series 2003 C Qualified Entity comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Each of the Issuer and the Series 2003 C Qualified Entity has covenanted or represented that it will comply with such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except for the opinion expressed in paragraph 5 hereof, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.
5. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for the purpose of computing the alternative

minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings.

6. Interest on the Bonds is exempt from income taxation in the State of Indiana (the "State") for all purposes except the State financial institutions tax.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement, dated June 6, 2003, or any other offering material relating to the Bonds.

With respect to the enforceability of any document or instrument, this opinion is subject to the qualifications that: (i) enforceability of such document or instrument may be limited by bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and similar laws relating to or affecting the enforcement of creditors' rights; (ii) the enforceability of equitable rights and remedies provided for in such document or instrument is subject to judicial discretion, and the enforceability of such document or instrument may be limited by general principles of equity; (iii) the enforceability of such document or instrument may be limited by public policy; and (iv) certain remedial, waiver and other provisions of such document or instrument may be unenforceable, provided, however, that in our opinion the unenforceability of those provisions would not, subject to the other qualifications set forth herein, affect the validity of such document or instrument or prevent the practical realization of the benefits thereof.

Very truly yours,

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding month. The Bond Bank may provide for less frequent statements so long as such statements are supplied no less frequently than quarterly.

Preservation of Tax Exemption for the Bonds

In order to assure the continuing excludability of interest on the Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees that it will not take any action or fail to take any action with respect to the Bonds, that would result in the loss of the exclusion from gross income for federal tax purposes of interest on any of the Bonds pursuant to Section 103 of the Code, nor will the Bond Bank act in any other manner which would adversely affect such exclusion; and it will not make any investment or do any other act or thing during the period that the Bonds are Outstanding which would cause any of the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code, all as in effect on the date of delivery of the particular Series of Bonds. Pursuant to the Indenture, all of these covenants are based solely on current law as in existence and effect on the date of delivery of the particular Series of Bonds. It will not be an Event of Default under the Indenture if the interest on the Bonds is not excluded from gross income for federal tax purposes or otherwise pursuant to any provision of the Code which is not currently in effect and in existence on the date of the issuance of such Bonds.

In making any determination regarding the covenants, the Bond Bank may rely on an Opinion of Bond Counsel.

Covenants Concerning the Bonds

In order to provide for the payment of the principal of and interest on the Bonds and of Program Expenses, the Bond Bank will from time to time, with all practical dispatch and in a sound and economical manner in accordance with the Act, the Indenture and sound banking practices and principals (i) do all acts and things as are necessary to receive and collect Revenues (including the enforcement of the prompt collection of any arrears on all Qualified Obligation Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Series 2003 C Qualified Obligations and to enforce all terms, covenants and conditions of the Series 2003 C Qualified Obligations. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Series 2003 C Qualified Obligation which is in default.

Covenants with Respect to Qualified Obligations

With respect to the Qualified Obligations, the Bond Bank covenants as follows:

(a) Not to permit or agree to any material change in any Qualified Obligation (other than ones for which consent of the Bond Bank is not required) unless the Bond Bank supplies the Trustee with a Cash Flow Certificate to the effect that, after such change, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any in each such Fiscal Year.

(b) To the extent that such action would not adversely affect the validity of the Qualified Obligation or other obligations of the Qualified Entity, or cause such Qualified Obligation to be considered debt of the Qualified Entity, the Bond Bank will pursue the remedies set forth in the Act, particularly Indiana Code 5-1.5-8-5, for the collection of deficiencies in Qualified Obligation Payments on any Qualified Obligation by collection of such deficiencies out of certain State funds payable but not yet paid to a defaulting Qualified Entity.

(c) To enforce or authorize the enforcement of all remedies available to the Bond Bank as the owner or holder of the Qualified Obligations, unless the Bond Bank provides the Trustee with a Cash Flow Certificate to the effect that, if such remedies are not enforced, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, will at least equal debt service on all Outstanding Bonds in each such Fiscal Year; provided, however, that decisions as to the enforcement of remedies shall be within the sole discretion of the Trustee.

(d) Not to sell or dispose of the Qualified Obligations, unless the Bond Bank first provides the Trustee with a Cash Flow Certificate to the effect that, after such sale, Revenues expected to be received in each Fiscal Year, together with moneys expected to be held in the Funds and Accounts, minus any proceeds of such sale or disposition transferred from any Fund or Account, will at least equal debt service on all Outstanding Bonds along with Program Expenses, if any, in each such Fiscal Year. Proceeds of such sales shall be invested only in Government Obligations or in Qualified Obligations which the Bond bank is permitted to purchase under the Indenture or disbursed as provided in the Indenture.

Certification Covenants

In the event that a deficiency in the Debt Service Reserve Fund is projected in the annual budget of the Bond Bank, the Chairman of the Board of Directors of the Bond Bank will certify such projected deficiency to the State General Assembly on or before July 25 of the Fiscal Year in which such deficiency is projected to occur. Further, regardless of whether any such deficiency was projected for its annual budget and regardless of the time at which such deficiency occurs or is projected to occur, the Bond Bank will take all actions required or allowed under the Act to certify any deficiency or projected deficiency in the Debt Service Reserve Fund to the State General Assembly.

Budgets

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 1 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 1, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due

and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when payment of the principal of that Bond, plus interest to its due date, either (a) has been made or has been caused to be made in accordance with its terms, or (b) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (i) moneys sufficient to make such payment, (ii) noncallable or non-repayable Governmental Obligations maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (iii) a combination of such moneys and Governmental Obligations, and all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, have been paid or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an “Event of Default” under the Indenture:

- (a) The Bond Bank defaults in the due and punctual payment of the principal of or interest on any Bond;
- (b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 30 days after receipt of notice, all in accordance with the Indenture;
- (c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is materially false or misleading when made, and there has been a failure to remedy such Event of Default within 30 days after receipt of notice, all in accordance with the Indenture;
- (d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;
- (e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 60 days after such filing;
- (f) The Bond Bank files a voluntary petition in bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;
- (g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent, bankrupt, or makes an assignment for the benefit of creditors, or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;
- (h) The Bond Bank fails to restore the Debt Service Reserve Fund to the applicable Debt Service Reserve Requirement within 60 days after the end of the Fiscal Year during which a deficiency occurs; or
- (i) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence and continuance of an Event of Default, the Trustee will notify the Series 2003 C Bond Insurer and the Owners of Outstanding Bonds of such Event of Default will have the following rights and will have the following remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Qualified Obligations;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may take such action with respect to the Qualified Obligations as the Trustee deems necessary, appropriate and in the best interest of the Bondholders, subject to the terms of the Qualified Obligations.

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment will confer; provided, however, for so long as the Series 2003 C Bond Insurance policy is in full force and effect, in the event of any reorganization or liquidation plan with respect to the Bond Bank, the Series 2003 C Bond Insurer will have the right to vote on behalf of the holders of the Series 2003 C Bonds; and

(d) The Trustee may declare the principal of and accrued interest on all Bonds to be due and payable immediately in accordance with the provisions of the Indenture and the Act by notice to the Bond Bank and the Attorney General of the State; provided, however, for so long as the Series 2003 C Bond Insurance Policy is in full force and effect, the Trustee may, with the consent of the Series 2003 C Bond Insurer, and shall, at the direction of the Series 2003 C Bond Insurer or 25% of the holders of the Series 2003 C Bonds with the consent of the Series 2003 C Bond Insurer, by written notice to the Bond bank, the Attorney General of the State and the Series 2003 C Bond Insurer, declare the principal of the Series 2003 C Bonds to be immediately due and payable, whereupon that portion of the principal of the Series 2003 C Bonds thereby coming due and the interest thereon accrued to the date of the payment shall, without further action, become and be immediately due and payable, anything in the Indenture or the Series 2003 C Bonds to the contrary notwithstanding.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Bondholders; provided, however, that if the Series 2003 C Bond Insurance Policy is in full force and effect the Trustee must receive the express written consent of the Series 2003 C Bond Insurer before exercising any such right or remedy in connection with the Series 2003 C Bonds.

The Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Waivers of Events of Default

At its discretion, the Trustee, with the consent of the Series 2003 C Bond Insurer (for so long as the Series 2003 C Bond Insurance Policy remains in full force and effect) may waive any Event of Default and its consequences, and must do so upon the written request of the owners of (a) more than sixty-six and two-thirds percent (66 2/3%) in aggregate principal amount of all Bonds then Outstanding in the case of default in the payment of principal or interest on the Bonds or (b) more than fifty percent (50%) in aggregate principal amount of all Bonds

then Outstanding in the case of any other default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default is discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Bondholders will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No Owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred and the Owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (b) such Owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (c) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the Owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any Owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds.

Rights of the Series 2003 C Bond Insurer upon Default

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default and for so long as the Series 2003 C Bond Insurance Policy remains in full force and effect, the Series 2003 C Bond Insurer, acting alone, shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Series 2003 C Bonds or the Trustee for the benefit of the holders of the Series 2003 C Bonds under the Indenture.

Series 2003 C Bond Insurer as the Sole Bondholder

For so long as the Series 2003 C Bond Insurance Policy remains in full force and effect, the Series 2003 C Bond Insurer will be deemed by the Trustee and the Bond Bank to be the sole registered owner of the Series 2003 C Bonds for the purpose of exercising all rights and privileges that the holders of the Series 2003 C Bonds.

Supplemental Indentures

The Bond Bank and the Trustee may, upon notice to the Series 2003 C Bond Insurer for so long as the Series 2003 C Bond Insurance Policy remains in full force and effect, but without the consent of or notice to any of the owners of Bonds, enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee, or to make any change which, in the judgment of the Trustee, does not materially and adversely affect the interests of the Bondholders and does not otherwise require the unanimous consent of all Bondholders under the Indenture;

(c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;

(d) To modify, amend or supplement the Indenture or any supplemental indenture in order to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or any other federal or state statute;

(e) To give evidence of the appointment of a separate or co-trustee, or the succession of a new Trustee, under the Indenture or the succession of a new registrar and/or paying agent;

(f) In connection with the issuance of Refunding Bonds;

(g) To provide for the refunding of all or a portion of the Bonds; and

(h) To amend the Indenture to permit the Bond Bank to comply with any covenants contained in any Supplemental Indenture with respect to compliance with future federal or State tax laws.

With the exception of supplemental indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indenture, the owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture, but only with the express written consent of the Series 2003 C Bond Insurer for so long as the Series 2003 C Bond Insurance Policy remains in full force and effect; However, no supplemental indenture may permit or be construed as permitting, without the consent of the owners of all Bonds then Outstanding under the Indenture and the Series 2003 C Bond Insurer for so long as the Series 2003 C Bond Insurance Policy remains in full force and effect, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium, or reduction on the rate or extension of the time of payment of the interest on, any Bonds, (b) the creation of any lien on the Trust Estate or any part thereof pledged under the Indenture prior to or on a parity with the lien of the Indenture other than alien ratably securing all of the Bonds Outstanding under the Indenture, (c) a reduction in the aggregate principal amount of the Bonds the owners of which are required to consent to such supplemental indenture, (d) the creation of privilege, priority or preference of any Bond or Bonds over any other Bond or Bonds, (e) a reduction in the Reserve Requirement, or (f) any amendment or modification of the trusts, powers, rights, obligations, duties, remedies and immunities of the Trustee without the written consent of the Trustee.

Additional Provisions Regarding The Series 2003 C Bond Insurer

For so long as the Series 2003 C Bond Insurance Policy remains in full force and effect, the following provisions regarding payment under the Series 2003 C Bond Insurance Policy will apply:

(a) In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Series 2003 C Bonds, the Paying Agent has not received sufficient moneys to pay all principal of and interest on the Series 2003 C Bonds due on the second following or following, as the case may be, Business Day, the Paying Agent is required to immediately notify the Series 2003 C Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing registered or certified mail, of the amount of the deficiency.

(b) If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent is required to notify the Series 2003 C Bond Insurer or its designee.

(c) In addition, if the Paying Agent has notice that any Bondholder has been required to disgorge payments of principal or interest on the Series 2003 C Bonds to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Paying Agent is required to notify the Series 2003 C Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

(d) The Paying Agent is appointed, directed and authorized to act as attorney-in-fact for Holders of the Series 2003 C Bonds as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the Series 2003 C Bonds, the Paying Agent is required to (a) execute and deliver to U.S. Bank Trust National Association, or its successors under the Series 2003 C Bond Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Series 2003 C Bond Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Series 2003 C Bond Insurer of the claims for interest to which such deficiency relates and which are paid by the Series 2003 C Bond Insurer, (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Series 2003 C Bond Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the Series 2003 C Bonds, the Paying Agent is required to (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Series 2003 C Bond Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Series 2003 C Bond Insurer of any of the Series 2003 C Bonds surrendered to the Insurance Paying Agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment will be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Paying Agent) in accordance with the tenor of the Series 2003 C Bond Insurance Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.

(e) Payments with respect to claims for interest on and principal of Series 2003 C Bonds disbursed by the Paying Agent from proceeds of the Series 2003 C Bond Insurance Policy are required not to be considered to discharge the obligation of the Bond Bank with respect to such Series 2003 C Bonds, and the Series 2003 C Bond Insurer shall become the owner of such unpaid Series 2003 C Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

(f) Irrespective of whether any such assignment is executed and delivered, the Bond Bank and the Paying Agent agree for the benefit of the Series 2003 C Bond Insurer that:

(i) They recognize that to the extent the Series 2003 C Bond Insurer makes payments, directly or indirectly (as by paying through the Paying Agent), on account of principal of or interest on the Series 2003 C Bonds, the Series 2003 C Bond Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the Bond Bank, with interest thereon as provided and solely from the sources stated in this Indenture and the Series 2003 C Bonds, and

(ii) They will accordingly pay to the Series 2003 C Bond Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Series 2003 C Bond Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in this Indenture and

the Obligation, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Series 2003 C Bonds to Holders, and will otherwise treat the Series 2003 C Bond Insurer as the owner of such rights to the amount of such principal and interest.

(g) In connection with the issuance of additional obligations, the Bond Bank is required to deliver to the Series 2003 C Bond Insurer a copy of the disclosure document, if any, circulated with respect to such additional obligations.

(h) Copies of any amendments made to the documents executed in connection with the issuance of the Series 2003 C Bonds which are consented to by the Series 2003 C Bond Insurer shall be sent to Standard & Poor's Corporation.

(i) The Series 2003 C Bond Insurer is required to receive any notice that is required to be given to a holder of the Series 2003 C Bonds or to the Paying Agent pursuant to the Indenture, including a notice of the resignation or removal of the Paying Agent and the appointment of a successor thereto and, on annual basis, copies of the Bond Bank's audited financial statements and Annual Budget..

(j) The Bond Bank has agreed to reimburse the Series 2003 C Bond Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the Series 2003 C Bond Insurer in connection with (i) the enforcement by the Series 2003 C Bond Insurer of the Bond Bank's obligations, or the preservation or defense of any rights of the Series 2003 C Bond Insurer, under the Indenture and any other document executed in connection with the issuance of the Series 2003 C Bonds, and (ii) any consent, amendment, waiver or other action with respect to the Indenture or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Series 2003 C Bond Insurer agrees reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

DEFINITIONS

The following are definitions of certain terms used in the Official Statement, including its Appendices:

“Accounts” means the accounts created pursuant to the Indenture.

“Act” means the provisions of Indiana Code 5-1.5-1 et seq., as from time to time amended.

“Authorized Officer” means the Chairman, Vice Chairman or Executive Director of the Bond Bank or such other person or persons who are duly authorized to act on behalf of the Bond Bank.

“Bankruptcy Code” means the Bankruptcy Reform Act of 1978, as amended from time to time.

“Bond Bank” means the Indiana Bond Bank, a public body corporate and politic, not a state agency, but an independent public instrumentality of the State exercising essential public functions, or any successor to its functions.

“Bondholder” or “Holder” or “holder of Bonds” or “owner of Bonds” or any similar term means the registered owner of any Bond, including the Bond Bank, and any purchaser of Bonds being held for resale, including the Bond Bank.

“Bond Issuance Expense Account” means the account by that name created by Section 6.02 of the Indenture.

“Bonds”, collectively, means the Series 2003 C Bonds and any Refunding Bonds.

“Cash Flow Certificate” means a certificate prepared by an accountant or firm of accountants in accordance with the Indenture concerning anticipated Revenues and payments.

“Code” means the Internal Revenue Code of 1986 in effect on the date of issuance of the Series 2003 C Bonds, and the applicable regulations or rulings promulgated or proposed thereunder, and any successor thereto.

“Costs of Issuance” shall mean items of expense payable or reimbursable directly or indirectly by the Bond Bank and related to the authorization, sale and issuance of Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of the Trustee, underwriter’s discounts, legal fees and charges, professional consultants’ fees, costs of credit ratings, fees and charges for execution, transportation and safekeeping of Bonds, bond or reserve fund insurance premiums, credit enhancements (including Credit Facilities) or liquidity facility fees, and other costs, charges and fees in connection with the foregoing.

“Counsel” means an attorney duly admitted to practice law before the highest court of any state and approved by the Bond Bank.

“Credit Facility” means any letter of credit, revolving credit agreement, surety bond, insurance policy or other agreement or instrument.

“Credit Provider” means the issuer of any Credit Facility qualifying under the Indenture and its successors in such capacity and their assigns.

“Debt Service Reserve Fund” means the fund by that name created by the Indenture.

“Debt Service Reserve Fund Credit Facility” means any Credit Facility issued or provided by a Credit Provider (i) which may be deposited in a reserve account in the Debt Service Reserve Fund in lieu of or in partial substitution for cash or investment securities to be on deposit therein, and (ii) which shall be payable (upon the

giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such reserve account in which such Credit Facility is deposited and applied to the payment of the principal of or interest on any Bonds.

“Debt Service Reserve Fund Reimbursement Obligation” means any obligation to reimburse the Credit Provider of any Debt Service Reserve Fund Credit Facility for any payment made under such Debt Service Reserve Fund Credit Facility or any other obligation to repay any amounts (including, but not limited to, fees or additional interest) to the Credit Provider.

“Default” means an event or condition the occurrence of which, with the lapse of time or the giving of notice or both, would become an Event of Default under the Indenture.

“Depository Company” or “DTC” means the Depository Trust Company, New York, New York, and its successors and assigns, including any surviving, resulting or transferee corporation, or any successor corporation that may be appointed in a manner consistent with the Indenture and shall include any direct or indirect participants of the Depository Trust Company.

“Event of Default” means any occurrence or event specified in the Indenture.

“Fees and Charges” means fees and charges established by the Bond Bank from time to time pursuant to the Act which are payable by the Qualified Entity.

“Fiscal Year” means the twelve (12) month period from July 1 through the following June 30.

“Funds” means the funds created pursuant to the Indenture, except for the Rebate Fund.

“General Account” means the account by that name created by of the Indenture.

“General Fund” means the fund by that name created by the Indenture.

“Governmental Obligations” (a) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – “SLGS”; (b) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (c) The interest component of Resolution Funding Corp. strips, in book entry form, which have been stripped by request to the Federal Reserve Bank of New York; (d) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by S&P or, if rated only by S&P, then only such municipal bonds as have been refunded with cash, direct U.S. or U.S. guaranteed obligations, or other AAA rated pre-refunded municipal bonds; or (e) Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.; U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, General Services Administration, U.S. Maritime Administration or U.S. Department of Housing and Urban Development.

“Indenture” means the Trust Indenture, dated as of May 1, 2003 between the Indiana Bond Bank and National City Bank of Indiana, and all supplements and amendments thereto entered into pursuant thereto.

“Interest Payment Date” means any date on which interest is payable on the Bonds.

“Investment Earnings” means earnings and profits (after consideration of any accrued interest paid and/or amortization of premium or discount on the investment) on the moneys in the Funds and Accounts established under the Indenture.

“Investment Securities” means any of the following:

(a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- (1) U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
- (2) Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- (3) Federal Financing Bank
- (4) Federal Housing Administration Debentures (FHA)
- (5) General Services Administration
Participation certificates
- (6) Government National Mortgage Association (GNMA or “Ginnie Mae”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
- (7) U.S. Maritime Administration
Guaranteed Title XI financing
- (8) U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed
public housing notes and bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- (1) Federal Home Loan Bank System
Senior debt obligations
- (2) Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
Participation Certificates
Senior debt obligations
- (3) Federal National Mortgage Association (FNMA or “Fannie Mae”)
Mortgage-backed securities and senior debt obligations
- (4) Student Loan Marketing Association (SLMA or “Sallie Mae”)
Senior debt obligations
- (5) Resolution Funding Corp. (REFCORP) obligations
- (6) Farm Credit System
Consolidated systemwide bonds and notes

(d) Money market funds, including those of the Trustee, registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody’s rated Aaa, Aa1 or Aa2.

(e) Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts or deposit accounts which are fully insured by FDIC, including BIF and SAIF.

(g) Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Series 2003 C Bond Insurer.

(h) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

(k) Repurchase Agreements for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to the Series 2003 C Bond Insurer.

1. Repos must be between the Bond Bank and a dealer bank or securities firm.

(a) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor's Corporation and Moody's Investor Services, or

(b) Banks rated "A" or above by Standard & Poor's Corporation and Moody's Investor Services.

2. The written repo contract must include the following:

(a) Securities which are acceptable for transfer are:

(1) Direct U.S. governments, or

(2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA & FHLMC).

(b) The collateral must be delivered to the Bond Bank, Trustee (if Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(c) Valuation of Collateral

(l) The securities must be valued weekly, marked-to-market at current market price plus accrued interest

(a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then

additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the Bond Bank:

(a) Repo meets guidelines under state law for legal investment of public funds.

“Notice Address” means, with respect to the Qualified Entity, the Qualified Entity’s address given in connection with the sale of its Qualified Obligation to the Bond Bank, and, with respect to the Bond Bank and the Trustee:

Bond Bank: Indiana Bond Bank
Attention: Chairman
2980 Market Tower
Indianapolis, IN 46204

Trustee: National City Bank of Indiana
One National City Center, Suite 655S
Indianapolis, IN 46255
Attention: Corporate Trust Department

Series 2003 C Bond Insurer: MBIA Insurance Corporation
113 King Street
Armonk, NY 10504
Attention: Insured Portfolio Management

“Opinion of Bond Counsel” means an opinion of Counsel by a nationally recognized firm experienced in matters relating to the tax exemption for interest payable on obligations of States and their instrumentalities and political subdivisions under federal law and which is acceptable to the Bond Bank and the Trustee.

“Opinion of Counsel” means a written opinion of Counsel addressed to the Trustee, for the benefit of the owners of the Bonds, who may (except as otherwise expressly provided in the Indenture) be Counsel to the Bond Bank or Counsel to the owners of the Bonds and who is acceptable to the Trustee.

“Outstanding” or “Bonds Outstanding” means all Bonds which have been authenticated and delivered by the Trustee under the Indenture, including Bonds held by the Bond Bank, except:

- (1) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;
- (2) Bonds deemed paid under the Indenture; and
- (3) Bonds in lieu of which other Bonds have been authenticated under the Indenture or under any Supplemental Indenture.

“Principal Payment Date” means the maturity date or the mandatory sinking fund redemption date of any Bond.

“Program” means the program for purchasing Qualified Obligations by the Bond Bank pursuant to the Act.

“Program Expenses” means all of the fees and expenses of the Trustee and costs of determining the amount rebatable, if any, to the United States of America under the Indenture, all to the extent properly allocable to the Program.

“Purchase Agreement” means a Qualified Entity Purchase Agreement between the Bond Bank and a Qualified Entity, pursuant to which one or more Qualified Obligations are sold to the Bond Bank.

“Purchase Contract” means the Bond Purchase Agreement, for the Series 2003 C Bonds between the Bond Bank and the Underwriter, dated June 6, 2003, the form of which was approved at the meeting of the Board of Directors of the Bond Bank on April 8, 2003.

“Qualified Entity” means an entity defined in IC 5-1.5-1-8, as amended from time to time, including the Series 2003 C Qualified Entity.

“Qualified Obligation” means a Security (as that term is defined in the Act), including the Series 2003 C Qualified Obligations, which has been acquired by the Bond Bank pursuant to the Indenture.

“Qualified Obligation Interest Payment” means that portion of a Qualified Obligation Payment which represents the interest due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Payment” means the amounts paid or required to be paid, from time to time, for principal and interest on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Qualified Obligation Principal Payment” means that portion of a Qualified Obligation Payment which represents the principal due or to become due on a Qualified Obligation held by the Trustee pursuant to the Indenture.

“Rebate Fund” means the fund by that name created by the Indenture.

“Record Date” means, with respect to any Interest Payment Date, the tenth day of the calendar month of such Interest Payment Date.

“Redemption Account” means the account by that name created by the Indenture.

“Redemption Price” means, with respect to any Bond, the principal amount of the Indenture, plus the applicable premium, if any, payable upon redemption prior to maturity.

“Refunding Bonds” means Bonds issued pursuant to the Indenture hereof and any Supplemental Indenture.

“Reserve Requirement” means an amount equal to the least of (i) the maximum annual debt service on the Bonds, (ii) ten percent of the original stated principal amount of the Bonds, or (iii) 125 percent of average annual debt service on the Bonds, which at the time of issuance of the Series 2003 C Bonds means an amount equal to \$1,042,500.

“Revenues” means the Funds and Accounts and all income, revenues and profits of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all Qualified Obligation Payments.

“S&P” means Standard & Poor’s Ratings Services, a Division of The McGraw-Hill Companies, or any successor thereof which qualifies as a “Rating Agency” hereunder.

“Series of Bonds” or “Bonds of a Series” or “Series” or words of similar meaning means any Series of Bonds authorized by the Indenture or by a Supplemental Indenture.

“Series 2003 C Bond Insurance Policy” means the insurance policy issued by the Series 2003 C Bond Insurer guaranteeing the scheduled payment of the principal of and interest on the Series 2003 C Bonds when due.

“Series 2003 C Bond Insurer” means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York.

“Series 2003 C Bonds” means the Indiana Bond Bank Special Program Bonds, Series 2003 C (Whiting Sanitary District) issued pursuant to the Indenture.

“Series 2003 C Qualified Entity” means the Sanitary District of the City of Whiting, Indiana.

“Series 2003 C Qualified Obligations” means the City of Whiting Sanitary District Refunding Bonds of 2003.

“State” means the State of Indiana.

“Supplemental Indenture” means an indenture supplemental to or amendatory of the Indenture, executed by the Bond Bank and the Trustee in accordance with the Indenture.

“Trustee” means National City Bank of Indiana, or any successor thereto under the Indenture.

“Trust Estate” means the property, rights, and amounts pledged and assigned to the Trustee pursuant to the granting clause of the Indenture,

“Underwriter” means with regard to the Series 2003 C Bonds, City Securities Corporation.

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SPECIMEN MUNICIPAL BOND INSURANCE POLICY

FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Assistant Secretary